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T: PROFITS IN THE WESTERN TIMBER INDUSTRIES

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FOREWORD

This report has been prepared in response to a request from Senator Wayne Morse of Oregon for an analysis of the profit situation in the various segments of the western forest products industry.

Concern has been expressed from time to time by members of the timber industry regarding the adequacy of profit levels, particularly in the western lumber industry. The matter of profit levels also is a factor of key importance to the Forest Service and other timber management agencies in the appraisal and sale of public timber. It is hoped this study of profit experience in the wood-using industries of the West will provide some useful background on problems facing these industries.

Because of the desirability of obtaining more detailed information than is available in published reports of the Internal Revenue Service and Federal Trade Commission-Securities and Exchange Commission, a special analysis of tax returns was made by the Internal Revenue Service for the tax year 1962. This analysis covered both corporate and non-corporate taxpayers in the lumber industry, and corporate taxpayers in the plywood, pulp and paper, and diversified forest products industries. These industrial groups were further classified by (1) degree of dependence on public timber, and (2) asset size class. This special study

was limited for the most part to western firms, with limited coverage of eastern lumber corporations.

This report, summarizing results of this special study, provides information on earnings in the several segments of the western forest industries for the year 1962, the latest year for which detailed data are available. In order to provide perspective, the report presents at the outset information on profit trends over the period 1947-64.



## CONTENTS

	<u>Page</u>
Foreword.....	i
Highlights.....	1
Trends in Profits 1947-64.....	5
Procedures.....	9
Profits in the Lumber Industry.....	17
Western lumber corporations.....	17
Other western lumber firms.....	29
Eastern lumber corporations.....	41
Profits in the Western Plywood Industry.....	46
Profits in the Western Pulp and Paper Industry.....	51
Profits in the Western Diversified Timber Industry.....	55
Interindustry Comparisons of Profits.....	59
Appendix: Basic Statistics.....	74

# LIST OF TEXT TABLES

<u>Table</u>	<u>Page</u>
1 - Relative importance of timber industries included in study.....	13
2 - Number of sample firms - western lumber corporations.....	19
3 - Net income after tax in percent of net worth - western lumber corporations - 1962.....	20
4 - Net income after tax in percent of business receipts - western lumber corporations - 1962.....	22
5 - Net income after tax plus interest paid in percent of total assets - western lumber corporations - 1962.....	23
6 - Compensation of officers in percent of business receipts - western lumber corporations - 1962.....	24
7 - Net long-term capital gain of western lumber corporations in percent of net income before tax - 1962.....	26
8 - Federal income tax liability in percent of income subject to tax - western lumber corporations - 1962.....	27
9 - Number of "noncorporate" sample firms in the western lumber industry - 1962.....	31
10 - Net income before tax in percent of net worth, by type of firm - western lumber industry - 1962.....	32
11 - Net income before tax in percent of business receipts, by type of firm - western lumber industry - 1962.....	34
12 - Net income before tax in percent of business receipts, by size class - other western lumber firms - 1962.....	36
13 - Compensation of officers or partners in percent of business receipts - western lumber industry - 1962.....	37
14 - Compensation of officers or partners in percent of business receipts - western lumber small business corporations and partnerships - 1962.....	38
15 - Long-term capital gains in percent of net income before tax, by type of firm - western lumber industry - 1962....	39
16 - Net income after tax in percent of net worth and business receipts, eastern and western lumber corporations - 1962.....	42

# LIST OF TEXT TABLES (continued)

<u>Table</u>	<u>Page</u>
17 - Net income after tax plus interest paid in percent of total assets - eastern and western lumber corporations - 1962.....	43
18 - Compensation of officers in percent of business receipts - lumber corporations - 1962.....	44
19 - Net long-term capital gains in percent of net income before tax - eastern lumber corporations - 1962.....	45
20 - Income tax liability in percent of income subject to tax - lumber corporations - 1962.....	45
21 - Net income after tax in percent of net worth - western plywood corporations - 1962.....	47
22 - Net income after tax in percent of business receipts - western plywood corporations - 1962.....	48
23 - Net income after tax plus interest paid in percent of total assets - western plywood corporations - 1962.....	48
24 - Net long-term capital gains in percent of net income before tax - western plywood corporations - 1962.....	50
25 - Net income after tax in percent of net worth in western pulp and paper corporations - 1962.....	52
26 - Net income after tax in percent of business receipts in western pulp and paper corporations - 1962.....	52
27 - Net income after tax plus interest paid in percent of total assets - western pulp and paper corporations - 1962.....	53
28 - Net long-term capital gains in percent of net income before tax - western pulp and paper corporations - 1962.....	54
29 - Net income after tax in percent of net worth in western diversified timber corporations - 1962.....	56
30 - Net income after tax in percent of business receipts in western diversified timber corporations - 1962.....	56
31 - Net income after tax plus interest paid in percent of total assets - western diversified timber products corporations - 1962.....	57



# LIST OF TEXT TABLES (continued)

<u>Table</u>	<u>Page</u>
32 - Net long-term capital gains in percent of net income before tax - western diversified timber industry - 1962.....	58
33 - Federal income tax liability in percent of income subject to tax - western diversified corporations - 1962.....	58
34 - Net income after tax in percent of net worth - western timber corporations - 1962.....	61
35 - Net income after tax in percent of business receipts - western timber corporations - 1962.....	62
36 - Net income after tax plus interest paid in percent of total assets - western timber products corporations - 1962.....	63
37 - Compensation of officers in percent of business receipts - western forest products corporations - 1962.....	66
38 - Net income after taxes, interest paid, and compensation of officers in percent of business receipts - timber corporations - 1962.....	68
39 - Net long-term capital gains, by industry - 1962.....	69
40 - Net long-term capital gains as percent of net income before tax - western timber products corporations - 1962.....	71
41 - Net long-term capital gains as percent of net income before tax - western timber products corporations reporting net income - 1962.....	71
42 - Federal income tax liability in percent of income subject to tax - western timber products corporations - 1962.....	73

FiguresPage

1 - Corporate net income after tax as a percent of net worth - 1947-64.....	6
2 - Corporate net income after tax as a percent of business receipts - 1947-64.....	6
3 - Profit ratios before tax - western lumber firms - 1962..	33
4 - Profit ratios after tax - timber products corporations - 1962.....	60

## HIGHLIGHTS

1. Corporations represent the dominant form of enterprise in the timber industries. In the United States as a whole, corporations in 1962 accounted for approximately 80 percent of all business receipts in the lumber industry, even though sole proprietorships outnumbered corporations by a ratio of 5 to 1 and partnerships were nearly as numerous as corporations. In the plywood, pulp and paper, and diversified forest industries, corporations accounted for practically all business activity.

2. Profits in the western timber industries in 1962 were close to the low point for the postwar period. The pronounced downward trend in profits in the timber industries reached a low point in 1960 and 1961. Profits in 1962--the year considered in this study--were only slightly above these low years. In subsequent years, profits in the timber industry have increased rather substantially.

3. Profits in the western timber industries in 1962 were lowest for plywood companies and highest for pulp and paper corporations. These relationships are summarized in the following tabulation showing earnings in percent of net worth, earnings in percent of business receipts, and the "overall earning rate."



Industry	<u>Net income after tax in percent of net worth</u>	<u>Net income after tax in percent of business receipts</u>	<u>Net income after tax plus interest paid in percent of total assets</u>
Lumber	6.1	2.8	5.0
Plywood	4.4	1.0	4.0
Pulp and paper	9.1	7.4	6.8
Diversified	6.2	5.2	5.5
All U.S. manufacturing corporations	(not available)	3.2	5.3

As shown in the above tabulation, 1962 earnings of western lumber and plywood corporations were below, and earnings of pulp and paper and diversified corporations were above, the average for all U.S. manufacturing corporations.

4. Within the western lumber industry, corporations were more profitable than small business corporations, partnerships, or sole proprietorships. Net income before tax in percent of business receipts, for example, averaged 4.8 percent for corporations in 1962 compared with 4.0 percent for small business corporations, 3.3 percent for sole proprietorships, and 1.3 percent for partnerships.

5. Relationship between profits and dependence on public timber was not consistent. Profits in western lumber corporations, and in the diversified forest products industry, were larger in firms "not dependent" on public timber than in those which derived over half of their raw material from public forests. The reverse was true for lumber small business corporations, partnerships, and sole proprietorships and also for plywood

corporations; these showed higher earnings in firms dependent upon public timber. In the pulp and paper industry, there was relatively little difference in earnings between firms dependent and not dependent on public timber.

6. Earnings not closely correlated with size of enterprise.

Asset size classes appropriate to the various segments of the timber industry were not uniform and hence no direct comparisons can be made of earnings by size class. Earnings were relatively higher in the larger pulp and paper and lumber corporations. In diversified timber corporations, earnings were highest in the intermediate asset size class. In the plywood industry and in sole proprietorships and partnerships in the lumber industry, profit ratios were the lowest in the largest size classes.

7. Compensation of officers in percent of business receipts varied widely. In western lumber corporations, compensation of officers ranged from 3.1 percent for enterprises having assets of less than \$500,000 to 0.4 percent for those having assets of more than \$5,000,000. As would be anticipated, compensation in relation to business receipts tended to decline as enterprises became larger.

When net income and compensation of officers are combined, differences in "earnings" become much less pronounced than when considering net income alone. Treatment of stock options, bonuses, retirement and other fringe benefits differ markedly from company to company, however, and data on officers compensation are therefore less meaningful than would otherwise be the case.

8. Substantial capital gains in the timber industry are reflected in relatively low effective tax rates. Net long-term capital gains in 1962 averaged 9.9 percent of the total income of western timber corporations, in contrast to 0.9 percent for all U.S. manufacturing corporations. Federal income tax liability in percent of income subject to tax averaged 36 percent for all western timber corporations, compared with 48 percent for all U.S. manufacturing corporations. Effective tax rates in 1962 for segments of the western timber industry varied from 32 percent for diversified timber corporations to 39 percent for lumber and pulp and paper corporations.

## TRENDS IN PROFITS 1947-64

In the years following World War II profits in the timber industries reached relatively high levels, but from 1947 until 1960-61 profits in these industries showed a strong downward trend. More recently the trend has again been upward. These changes in earning rates since 1947 are shown in figures 1 and 2 and Appendix tables 1 and 2.

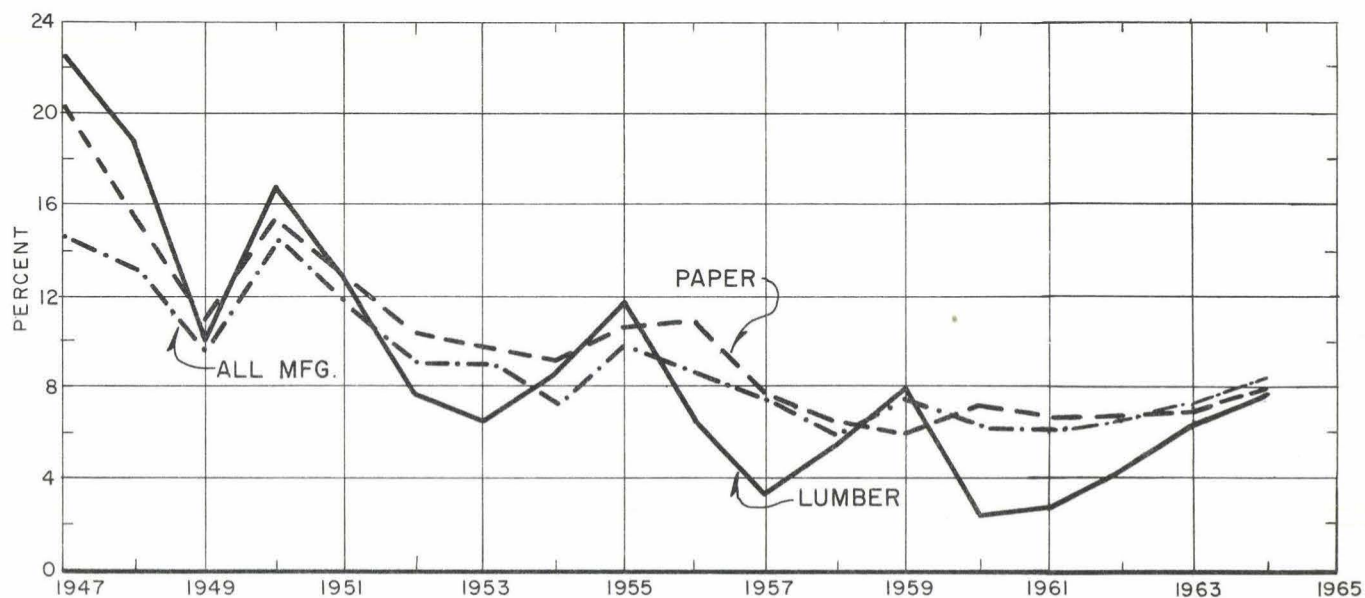
In the "lumber and wood products" industry, for example, reports of the Internal Revenue Service indicate that corporate net income after taxes averaged 22.5 percent of net worth in 1947 but only 2.4 percent in 1960. This decline in earnings was somewhat greater than for "all manufacturing" industries and for the competitive "stone, clay and glass" industry. Net income after taxes as a percentage of business receipts showed a similar marked decline in the lumber and wood products industry from 10.9 percent in 1947 to 1.2 percent in 1960.

Earnings in the lumber and wood products industry in 1962 amounted to (an estimated) 4.2 percent of net worth and 1.8 percent of business receipts--somewhat above the low levels of 1960 and 1961. In 1962 earnings in this industry thus were still substantially below the average earnings of "all manufacturing" industries.

In the paper and allied products industry, profits also declined substantially after 1947. Net income after taxes in percent of net worth dropped from an average of 20.2 percent in 1947 to 6.8 percent in 1961. The drop in earnings for pulp and paper firms was less



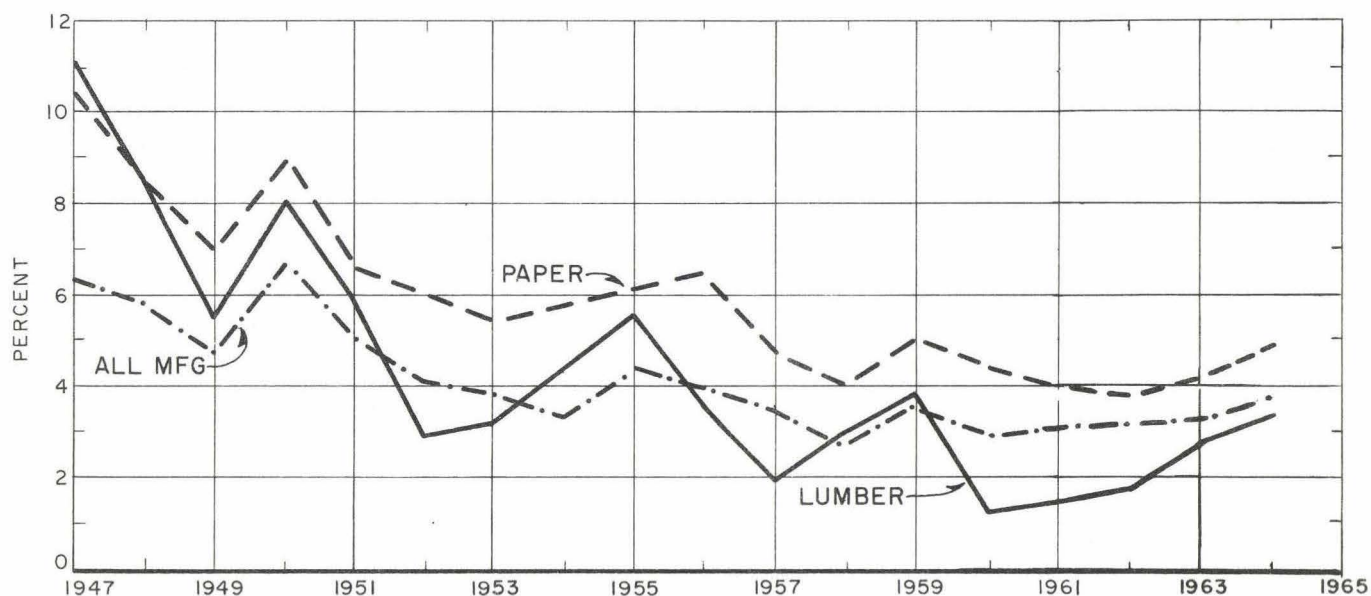
# CORPORATE NET INCOME AFTER TAX AS A PERCENT OF NET WORTH, 1947-1964



SOURCE: INTERNAL REVENUE SERVICE, U.S. TREASURY DEPT., STATISTICS OF INCOME -- 1962-64 ESTIMATED

Figure 1

# CORPORATE NET INCOME AFTER TAX AS A PERCENT OF BUSINESS RECEIPTS, 1947-1964



SOURCE: INTERNAL REVENUE SERVICE, U.S. TREASURY DEPT., STATISTICS OF INCOME -- 1963-64 ESTIMATED

Figure 2

pronounced than in the lumber and wood products industry, and in most years earnings were somewhat greater than the average of "all manufacturing" industries. In 1962 earnings in the paper and allied products industry reached a new low but still exceeded average earnings for all manufacturing.

As shown in figures 1 and 2, after-tax profits both in the lumber and paper industries and for all manufacturing industries rose during the years 1962-64 inclusive. Unofficial data indicate that corporate profits after tax continued to rise in 1965. Higher after-tax profits in recent years have been attributable to some extent to reductions in corporate income tax rates for taxable years beginning in 1964 and 1965. The sum of normal tax and surtax rates amounted to 52 percent in 1963, 50 percent in 1964 and 48 percent in 1965.

Information on profits shown in reports of the Federal Trade Commission and the Security Exchange Commission--summarized in Appendix tables 1 and 2--show average profits somewhat higher than these figures derived from reports of the Internal Revenue Service. However, the two series show similar trends in earnings during the period under consideration. Differences in reported profit ratios between the two series are attributed primarily to use of somewhat different sampling methods, accounting concepts, and financial statements.



Internal Revenue Service statistics of income data for net worth were not compiled for 1962; such data and also those for business receipts are not yet available for 1963 or 1964. In view of this, profit ratios shown in figures 1 and 2 and in Appendix tables 1 and 2 were estimated for these three years. The ratios were estimated by assuming the same percentage relationship between Federal Trade Commission-Securities and Exchange Commission data and Internal Revenue Service data as had prevailed on the average over the six preceding years.

## PROCEDURES

In this special study of profit experience in 1962, firms manufacturing timber products in the West, including corporations, partnerships, and sole proprietorships, were first classified on the basis of the primary products produced, including (a) lumber, (b) plywood, (c) pulp and paper, and (d) diversified products.<sup>1/</sup>

### Basis for classification by industry

Firms were classified in the lumber industry, for example, if more than 75 percent of the total value of sales of the firm consisted of lumber products. Similar criteria were used to identify firms in the plywood and pulp and paper industry. Firms were classified as "diversified" when no single class of timber product accounted for more than 75 percent of the total sales of the firm. The latter classification, specified in the request from Senator Morse, does not agree with the Standard Industrial Classification used by such agencies as the Internal Revenue Service and the Census Bureau but does provide a more meaningful basis for appraising the profit situation in the forest industries.

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<sup>1/</sup>The term "firm" as used in this report, except as otherwise indicated, refers to an enterprise irrespective of its form of organization as a corporation, partnership, or sole proprietorship.

Classifications of firms were checked by the Internal Revenue Service and changed, if necessary, to conform with the definitions adopted in the study. In this final classification, an enterprise might include either one or several business entities, depending on the practice of the firm in filing Federal income tax returns.

#### Selection of sample firms

From the listing of firms thus classified in the western lumber industry, a sample was drawn for detailed analysis of earnings data in 1962. This sample included all firms estimated to produce more than 15 million board feet of lumber annually; one-third of those estimated to produce 3 to 15 million board feet annually; and 10 percent of those estimated to produce less than 3 million board feet annually. The total sample of the western lumber industry included 572 firms of an estimated total of 1,452.

In the western plywood, pulp and paper, and diversified forest products industries, all known firms (106 in number) were included in the analysis.

A number of eastern lumber firms were also studied to provide some comparison with earnings of western lumber firms. This eastern sample included only firms estimated to produce in excess of 15 million board feet of lumber annually. The eastern lumber firms, numbering 41, did not include companies with substantial western operations since these latter firms were already included in the western sample.

Classification by source of  
timber used

In each of the four "industry" classifications, sample firms were further classified by the Forest Service in terms of dependence on public timber. A firm was classed as: (a) "dependent" if more than 50 percent of the logs consumed by that firm were estimated to come from public lands; or (b) "not dependent" if more than half the logs used were estimated to come from private lands. It is apparent that classifications of the forest industries such as outlined above must be more or less arbitrary. One class tends to merge into another, and the classification of an individual firm may change from time to time with changes in product output or sources of raw materials.

In the lumber industry, those firms dependent upon public timber were further classified as: (1) "competitive" if available evidence indicated that they paid 5 percent or more above the appraised price for public timber purchased during 1962; or (2) "noncompetitive" if evidence indicated that they paid less than 5 percent over the appraised price for public timber purchased during that year.

Further classifications of firms by corporate or other form of organization, and asset size class were made by the Internal Revenue Service.

Data compiled by IRS

Listings of firms, classified in the above categories, were furnished to the Internal Revenue Service which compiled profits and other information as summarized in the following sections of the report.

There was no disclosure of data from the tax returns of individual firms, and only summary findings as shown below were made available for this report.

Data on assets, sales, earnings, etc., for the sample firms included in this study were "blown-up" to industry totals before deriving profit ratios. These estimated totals for the industries covered are shown in table 1. More detailed statistics of income are included in the Appendix.



Table 1.--Relative importance of timber industries included  
in study

Type of Firm	Total Firms	Assets	Business Receipts	Net Income Before Tax
	Number - - - -	Million dollars - - - -		
Western firms - Total	1,558	6,471	6,417	461.5
Lumber	1,452	1,253	1,829	82.6
Corporations	545	1,119	1,589	76.5
Small business corporations	86	61	76	3.1
Partnerships	279	73	126	1.7
Sole proprietorships	542	--	38	1.3
Plywood	69	212	400	6.1
Pulp and paper	15	1,524	1,159	141.3
Diversified	22	3,482	3,029	231.5
Eastern lumber firms	41	183	183	10.0

Profit ratios used in analysis

In analyzing the profits situation primary reliance has been placed upon the following three ratios:

(a) Net income after tax in percent of net worth. This ratio is useful in showing the rate of earnings on owners' investments in a business and is of major interest to stockholders and prospective investors. Net worth, as defined in Statistics of Income, represents



the stockholders equity in the assets of the corporation in contrast to the claims of creditors. It is made up of (1) capital stock, preferred and common, (2) capital surplus, (3) surplus reserves, and (4) earned surplus and undivided profits.

Where relatively large amounts of long-term capital are involved--as in the forest industries--book values may be substantially below values in current dollars. As a result, earning rates based on balance sheet data may be significantly higher than ratios based upon current asset values. This bias is compounded, moreover, to the extent that depreciation allowances based on historical values are less than would be the case if present day values were used and, as a result, earnings are overstated.

(b) Net income after tax in percent of business receipts. This ratio is useful in comparing firms within a given industry, and in comparing corporations and partnerships with sole proprietorships for which balance sheet information is for the most part not available.

(c) Net income after tax plus interest paid in percent of total assets. This ratio shows in effect total earnings on all capital used in an enterprise, whether equity or borrowed, and is thus a measure of overall profitability. As in the case of ratios of net income to net worth, overall earning rates may overstate earnings in terms of current values.

"After-tax" ratios are considered to be more suitable than "before-tax" ratios in analyzing the profitability of different firms and industries. However, it has been necessary to use "before-tax" ratios in comparing profit rates of corporations and sole proprietorships with those of partnerships and small business corporations (electing to be taxed as partnerships) neither of which is subject to direct Federal income taxation.

#### Timber depletion

Consideration was given to including in the study an analysis of deductions for timber depletion. Due to the fact that taxpayers frequently include some or all of their timber depletion as a part of cost of goods sold rather than on the depletion line of the return, the "depletion" item as extracted from tax returns cannot be relied upon as a true measure of the depletion actually claimed. For this reason, an analysis of depletion has not been included.

#### Definition of terms

As used in this report, the terms "profits" and "earnings", except as otherwise noted, refer to corporate net income and to partnership and sole proprietorship net profit as defined in Statistics of Income.

On corporation returns, net income (or deficit) is the difference between gross taxable receipts and the sum of cost of goods sold and other business deductions. For partnerships, net profit (or loss) represents the difference between total receipts and the sum of cost of goods sold and business deductions. On sole proprietorship returns, net profit (or loss) represents the difference between business receipts and the sum of cost of goods sold and business deductions.

In contrasting profits for corporations, partnerships and sole proprietorships it is important to remember that net income and net profit concepts as defined above are not strictly comparable. Thus 100 percent of long term capital gains is included in net income in the case of corporations and partnerships but only 50 percent is included in net profits in the case of sole proprietorships. A further difference is that salaries paid to an owner are a business deduction for a partnership but not for a sole proprietorship.

## PROFITS IN THE LUMBER INDUSTRY

### Western Lumber Corporations

Corporate profits are summarized in the following section with special attention given to the effects of asset size class and dependency upon public timber. (Detailed profit ratio tables and statistics of income are contained in the appendix.) Following consideration of profit ratios, attention is given to the relative importance of officer's compensation, to long-term capital gains and effective tax rates.

### Corporations the dominant form of business enterprise

Corporations conduct most of the business in the lumber industry although there are large numbers of sole proprietors and partnerships which together account for a significant part of the total business activity of this industry. In the United States as a whole, there were some 7,300 partnerships and 46,700 sole proprietorships that filed Federal income tax returns in the "lumber and wood products" industry in 1962, in contrast to some 9,200 corporations. Of the latter, some 1,300 were Small Business corporations electing to be taxed as partnerships. Corporations as a group accounted for approximately 80 percent of all business receipts in the U.S. lumber and wood products industry.



In this special study of the western lumber industry, corporations accounted for an estimated 87 percent of the total of \$1.8 billion of business receipts in the western lumber industry (table 1); Small Business corporations accounted for 4 percent of the total; and partnerships and sole proprietorships accounted for the remaining 9 percent. Corporations accounted for nearly 93 percent of the total net income before tax of \$82.6 million.

Small corporations predominant

The total of western lumber corporations comprised 545 firms, grouped by asset class and source of timber as shown in table 2. More than half the firms were classed as "small", with assets of less than \$500,000 per firm. Nearly two-thirds of the firms were classed as dependent on public timber.

Table 2.--Number of firms -- Western Lumber Corporations

Type of firm	Asset class				
	All classes	Under \$500,000	\$ 500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
Dependent on public timber.....	348	189	58	94	7
Competitive.....	256	135	53	64	4
Noncompetitive..	92	54	5	30	3
Not dependent on public timber.....	197	113	34	37	13
All firms.....	545	302	92	131	20

Of the 545 firms about two-thirds reported net income in 1962 and one-third reported net operating losses as shown by the following tabulation:

<u>Type of Firm</u>	<u>All Firms</u>	<u>With Net Income</u>	<u>Without Net Income</u>
Dependent on public timber....	348	209	139
Competitive.....	256	162	94
Noncompetitive.....	92	47	45
Not dependent on public timber	<u>197</u>	<u>149</u>	<u>48</u>
All firms.....	545	358	187



Profit ratios highest in firms  
not dependent on public timber

Earnings, in terms of net income after tax as a percent of net worth, varied rather widely about an average of 6.1 percent for all western lumber corporations (table 3). Earnings averaged as low as -2.9 percent for very small competitive corporations dependent on public timber, to as high as 23.5 percent for a limited sample of small noncompetitive corporations.

Table 3.--Net income after tax in percent of net worth  
--western lumber corporations -- 1962

Type of firm	Asset class				
	All classes	Under \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	2.2	-1.9	6.1	2.4	2.0
Competitive....	3.4	-2.9	4.9	4.6	1.4
Noncompetitive.	1.1	-0.8	23.5	-1.0	2.2
Not dependent on public timber....	7.9	12.5	5.5	3.0	8.4
All firms.....	6.1	3.6	5.9	2.6	7.2

Firms dependent upon public timber as a group showed a

significantly lower rate of return on net worth (2.2 percent) than did the firms not dependent upon public timber (7.9 percent). Among the firms dependent on public timber, those submitting competitive bids showed somewhat better earnings in relation to net worth (3.4 percent) than did the firms not submitting competitive bids (1.1 percent).

Average earnings by asset class were highest in the group of firms having assets of more than \$5,000,000; this group showed an average earning rate of 7.2 percent of net worth. However, profit ratios were not strongly correlated with asset size class.

Earnings in terms of net income after tax as a percent of business receipts, averaging 2.8 percent for all sample firms, also showed wide variations from -3.5 percent for one group of firms to

a high of 5.3 percent (table 4). The larger firms having assets in excess of \$5,000,000 showed an average earning rate of 4.6 percent of business receipts, whereas most firms falling in the smaller asset classes showed earnings of less than one percent of business receipts.

Firms not dependent upon public timber showed substantially higher earnings (4.2 percent) than firms dependent upon public timber (0.8 percent).

Table 4.--Net income after tax in percent of business receipts  
-- western lumber corporations -- 1962

Type of firm	Asset class				
	All classes	Under \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
Dependent on public timber.....	0.8	-0.2	1.0	0.8	1.3
Competitive.....	1.0	-0.3	0.8	1.4	1.3
Noncompetitive..	0.5	0.2	2.8	-3.5	1.4
Not dependent on public timber.....	4.2	1.7	0.8	1.1	5.3
All firms.....	2.8	0.5	0.9	0.9	4.6

Overall earning rates show less variation

The overall earning rate (i.e., net income after tax plus interest paid as a percent of total assets) averaged 5.0 percent for all firms, with a range from 1.8 percent for noncompetitive dependent firms to 6.5 percent for nondependent firms (table 5). Earning rates varied by asset size class and dependency upon public timber in much the same way as ratios of profits to net worth and business receipts. However, the range in overall earnings was considerably less than for those profit ratios.

Table 5.--Net income after tax plus interest paid in percent of  
total assets -- western lumber corporations -- 1962

Type of firm	Asset class				
	All classes	Under \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
Dependent on public timber.....	2.7	1.9	4.7	2.6	2.4
Competitive.....	3.3	2.3	4.2	3.6	2.1
Noncompetitive..	1.8	0.9	9.7	0.7	2.5
Not dependent on public timber.....	6.5	6.1	4.1	3.2	7.1
All firms.....	5.0	3.3	4.5	2.8	6.2

The overall earning rate averaged a full percentage lower than the ratio of net income to net worth. In three out of four asset classes the overall earning rate was lower than the profit ratio, although in one class (\$1-5 million) the earning rate was slightly higher. Since the overall earning rate is not affected by the type of capital structure of the enterprise, i.e., by the amount of borrowed capital as contrasted with equity capital, it represents a more complete measure of the earning power of employed resources than do other profit ratios.



Compensation of officers decreases relative to business receipts as assets become larger

Compensation of officers, particularly in the smaller firms and in family type businesses, may represent one form of earnings distribution and thus merits consideration in an analysis of profits. It should be borne in mind that treatment of expense accounts and travel allowances, life and accident-health insurance coverage, stock options, bonuses and retirement and other fringe benefits vary widely from one enterprise to another. The significance of the compensation item may thus be less than appears on the surface.

For all western lumber corporations, compensation of officers averaged 1.0 percent of business receipts (table 6). The relative importance of payments to officers decreased with size, ranging from as much as 3.1 percent of business receipts in small corporations down to 0.4 percent in the larger size firms.

Table 6.--Compensation of officers in percent of business receipts  
-- western lumber corporations -- 1962

Type of firm	Asset class				
	All classes	Under \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	1.5	3.3	1.3	1.4	0.7
Competitive....	1.7	3.0	1.3	1.4	1.1
Noncompetitive.	1.2	4.0	1.6	1.3	0.6
Not dependent on public timber....	0.7	2.7	1.9	1.2	0.3
All firms.....	1.0	3.1	1.5	1.3	0.4

In the smaller corporations, compensation of officers in percent of business receipts exceeded net income after taxes as a percent of business receipts, while the reverse was true in the larger corporations, as shown by the following tabulation:

<u>Asset Class</u>	<u>Net income</u>	<u>Compensation of officers</u>	<u>Total</u>
Under \$500,000	0.5	3.1	3.6
\$500,000 to \$1,000,000	0.9	1.5	2.4
\$1,000,000 to \$5,000,000	0.9	1.3	2.2
Over \$5,000,000	<u>4.6</u>	<u>0.4</u>	<u>5.0</u>
All classes	2.8	1.0	3.8

Thus when net income and compensation of officers are combined, differences in "earnings" become much less pronounced than when considering net income alone.

Capital gains averaged 38 percent of net income before tax

Net long-term capital gains constituted a substantial part of the net income of western lumber corporations in 1962. Long-term capital gains of firms reporting net income averaged nearly 30 percent of net income (table 7). For all firms combined, long-term gains averaged 38 percent. Capital gains were of particular importance in the case of corporations dependent upon public timber, particularly the "noncompetitive" firms.

Table 7.--Net long-term capital gain of western lumber corporations in percent of net income before tax, 1962

Type of firm	Corporations reporting net income	All corporations
Dependent on public timber....	44.5	100.6
Competitive.....	36.0	78.8
Noncompetitive.....	63.2	165.2
Not dependent on public timber	25.9	28.5
All firms.....	29.7	38.1

By reason of the alternative tax computation on capital gains, a corporation is not liable for more than 25 percent of the excess of the net long-term capital gain over the net short-term capital loss. The effect is to place a ceiling of 25 percent on the tax payable on long-term capital gains. The 1962 corporate tax structure applicable to ordinary income, on the other hand, amounted to 30 percent on the first \$25,000 of income subject to tax, and 52 percent on amounts over \$25,000.

Effective tax rates averaged 39 percent of income subject to tax

The ratio of tax liability to income subject to tax--defined as the effective tax rate--averaged 39 percent for all western lumber corporations reporting net income in 1962 (table 8). There was relatively little variation by asset class, except for firms having assets of less than \$500,000 which showed average rates of less than 30 percent. Firms not dependent upon public timber showed higher ratios for the most part than did dependent firms.

Table 8.--Federal income tax liability in percent of income subject to tax -- Western Lumber Corporations -- 1962

Type of firm	Asset class				
	All classes	Under \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
Dependent on public timber.....	33.5	27.1	37.8	37.9	25.5
Competitive.....	35.4	28.7	36.7	39.1	26.1
Noncompetitive..	28.7	23.5	43.6	32.5	25.1
Not dependent on public timber.....	40.4	32.3	37.2	36.5	40.9
All firms.....	39.1	29.7	37.6	37.4	40.0



For any individual corporation having net income, the "income subject to tax" may be either the same as net income or may be smaller because of the deduction of net operating losses of a prior year or because of the special deductions for intercorporate dividends, partially tax exempt interest, etc. For a group of corporations, however, aggregate net income may be less than aggregate income subject to tax. This results from the fact that corporations having a net loss for the year would be represented in aggregate "net income" by minus figures whereas "income subject to tax" for such corporations would be zero.

The low ratios indicated in table 8 relative to the tax rates applicable to ordinary income reflect the influence of the 25-percent rate applying to long-term capital gains.

### Other Western Lumber Firms

Although corporations are dominant in the western lumber industry, as indicated in table 1, small business corporations, partnerships, and sole proprietorships are significant from the standpoint of number of firms, and to a lesser extent, business activity. The terms "partnership" and "sole proprietorship" are self-explanatory but brief explanation of the term "small business corporation" may be useful.

#### Small business corporations taxed as partnerships

A domestic corporation having not more than ten shareholders, and meeting certain other requirements relating to group membership, class of stock, and types of shareholders, may elect to be taxed as a partnership and is then designated a "small business corporation." Enterprises qualifying under this definition are not limited as to size, however, either in terms of assets or volume of business transacted.

Small business corporations electing to be taxed as partnerships retain the advantages of the corporate form of organization and at the same time gain certain advantages accruing to partnerships and sole proprietorships. Income of such corporations, whether distributed or not, is ~~taxed~~ directly to shareholders and is free of tax at the

corporate level. Shareholders do not benefit from the dividend exclusion or the dividend credit but do get the benefit of the corporation's long-term capital gains and net operating losses, both of which are passed through to them. Shareholders may also obtain the benefit of the small business corporation's investment credit for purchase of business equipment.

"Noncorporate" firms  
relatively small

The 86 small business corporations, 279 partnerships and 542 sole proprietorships included in this sample study are classified by size in table 9. Due to the fact that balance sheet information is not required on the individual income tax return, sole proprietorships are classed by business receipts rather than by asset size classes. Firms are relatively small in all these three types of enterprise as would be expected.

The segment of the western lumber industry made up of small business corporations and partnerships had total assets in 1962 of \$134 million (asset data are not available for sole proprietorships). For all three types of enterprise business receipts aggregated \$240 million, and net income before taxes \$6.1 million (table 1).

Table 9.--Number of "noncorporate" firms in the  
Western Lumber Industry, 1962

SMALL BUSINESS CORPORATIONS

Type of firm	Asset class		
	All classes	Under \$500,000	Over \$500,000
Dependent on public timber.....	42	35	7
Competitive.....	22	16	6
Noncompetitive.....	20	19	1
Not dependent on public timber..	44	30	14
All firms.....	86	65	21

PARTNERSHIPS

Type of firm	Asset class		
	All classes	Under \$100,000	Over \$100,000
Dependent on public timber.....	140	96	44
Competitive.....	80	46	34
Noncompetitive.....	60	50	10
Not dependent on public timber..	139	105	34
All firms.....	279	201	78

SOLE PROPRIETORSHIPS

Type of firm	Business receipt class				
	All classes	Under \$50,000	\$50,000 to \$100,000	\$100,000 to \$200,000	Over \$200,000
Dependent on public timber.....	226	124	50	32	20
Competitive.....	105	40	30	29	6
Noncompetitive..	121	84	20	3	14
Not dependent on public timber.....	316	239	34	19	24
All firms.....	542	363	84	51	44



Corporations more profitable  
than other firms

Since neither small business corporations nor partnerships are taxed at the corporate level, profit comparisons among "noncorporate" segments of the western lumber industry can best be made on the basis of before-tax ratios. In comparing operating results of corporations, partnerships and sole proprietorships it should be borne in mind that profits data are not strictly comparable. (See explanation on page 16 under the heading Definition of Terms).

Small business corporations with a profit ratio of 8.6 percent, and partnerships with a ratio of 4.3 percent, were less profitable than corporations with a ratio of 10.5 percent (table 10 and figure 3). Analysis by dependency classes does not show a consistent pattern either by degree of dependency or type of enterprise. However, earnings were generally better in small business corporations and partnerships dependent upon public timber, whereas the reverse was true for western lumber corporations.

Table 10.--Net income before tax in percent of net worth, by type  
of firm - Western Lumber Industry - 1962

Type of firm	Corporations	Small business corporations	Partner- ships	Sole proprietor- ships <sup>1/</sup>
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	4.4	12.7	7.9	--
Competitive....	6.7	19.3	11.0	--
Noncompetitive.	2.2	7.1	-7.5	--
Not dependent on public timber....	13.5	2.2	-3.7	--
All firms.....	10.5	8.6	4.3	--

<sup>1/</sup>Data on net worth not available.

# PROFIT RATIOS BEFORE TAX – WESTERN LUMBER FIRMS, 1962

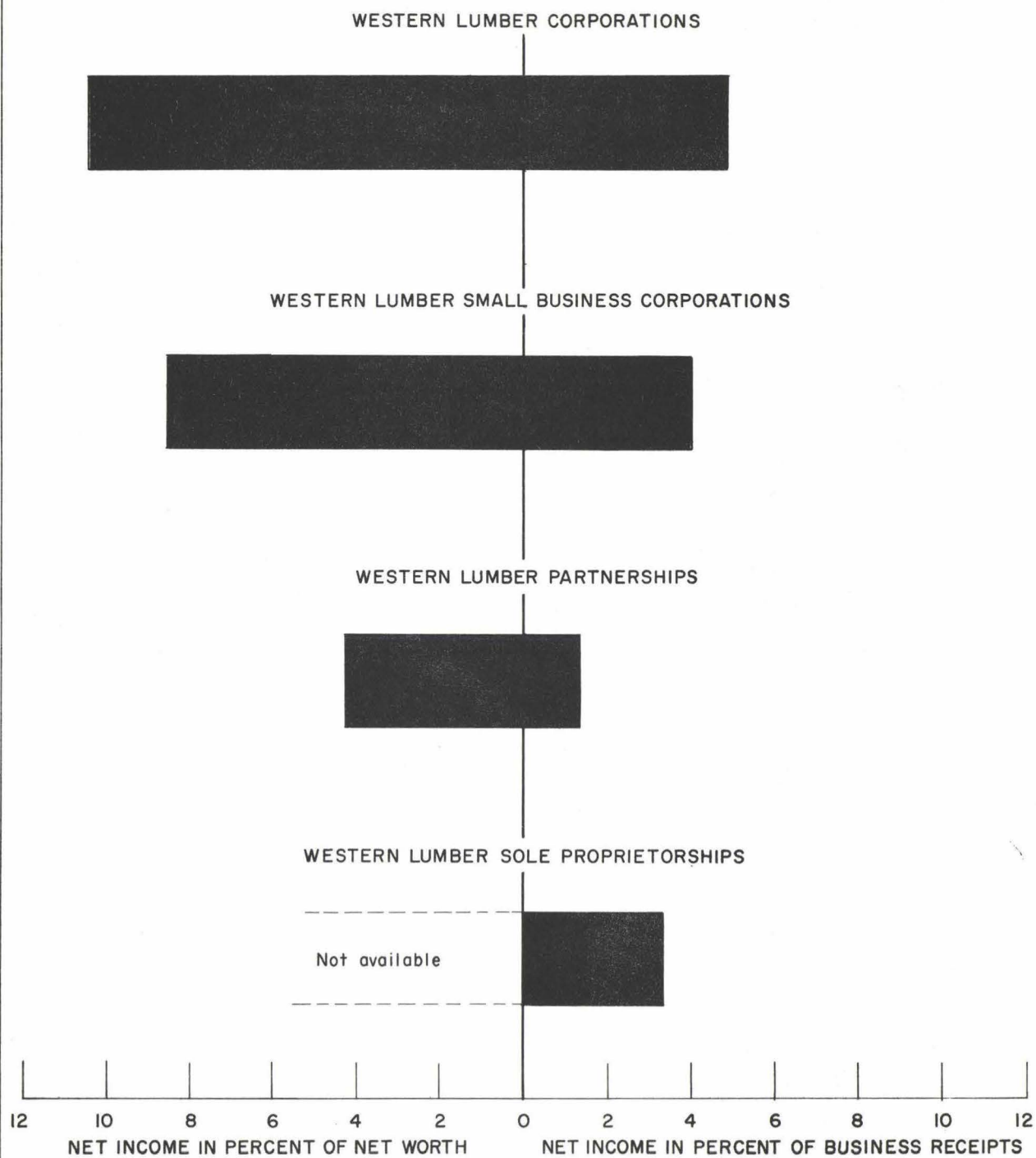


Figure 3

Net income before tax in percent of business receipts is shown in table 11 and figure 3 with sole proprietorships included. Here also the figures show corporations to be more profitable than other types of firms. Again the pattern is not consistent by dependency class or form of organization, although small business firms and partnerships dependent upon public timber tended to show higher earnings than did nondependent firms.

Table 11.--Net income before tax in percent of business receipts,  
by type of firm -- Western Lumber Industry -- 1962

Type of firm	Corporations	Small business corporations	Partner- ships	Sole proprietor- ships
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber.....	1.5	7.5	2.5	3.5
Competitive.....	1.9	7.2	3.5	5.1
Noncompetitive..	1.0	8.3	-2.3	-0.1
Not dependent on public timber.....	7.2	0.8	-1.1	3.1
All firms.....	4.8	4.0	1.3	3.3

Profit ratios of western "noncorporate"  
firms below United States average

It is of interest that for all partnerships engaged in lumber and wood products manufacture in the United States in 1962 the ratio of net income before tax to business receipts amounted to 6.2 percent, as contrasted with an average ratio of 1.3 percent for the western lumber partnerships included in the sample.

In the case of sole proprietorships, the ratio of net income before tax to business receipts for such enterprises engaged in lumber manufacture in the United States amounted to 8.6 percent in 1962, as contrasted with 3.3 percent for western sole proprietorships. For both types of enterprise, earnings of firms in the western sample were thus significantly less than the national average.

Profits not related to  
size of firm

Table 12 shows net income in percent of business receipts by size class for small business corporations, partnerships and sole proprietorships. In the case of small business corporations, profits became greater as size increased. Firms with assets of less than \$500,000 on the average incurred an operating loss for the year, whereas those with assets above \$500,000 showed a ratio of 6.5 percent.

In the case of partnerships, on the other hand, firms with assets of less than \$100,000 were more profitable than larger firms. Likewise the smaller sole proprietorships were more profitable than the larger firms.

The effect of size class upon the profits situation in the case of small business corporations, partnerships and sole proprietorships is thus mixed and no clear pattern emerges.



Table 12.--Net income before tax in percent of business receipts, by size class - other Western Lumber Firms - 1962

SMALL BUSINESS CORP.

Type of firm	Asset class		
	All classes	Under \$500,000	Over \$500,000
Dependent on public timber.....	7.5	1.6	11.0
Competitive.....	7.2	4.0	8.3
Noncompetitive.....	8.3	-1.0	1/
Not dependent on public timber..	.8	-2.5	2.5
All firms.....	4.0	-0.4	6.5

1/Combined to avoid disclosure

PARTNERSHIPS

Type of firm	Asset class		
	All classes	Under \$100,000	Over \$100,000
Dependent on public timber.....	2.5	14.0	1.8
Competitive.....	3.5	17.1	2.8
Noncompetitive.....	-2.3	6.9	-3.2
Not dependent on public timber..	-1.1	3.6	-2.2
All firms.....	1.3	7.7	0.7

SOLE PROPRIETORSHIPS

Type of firm	Business receipt class				
	All classes	Under \$50,000	\$50,000 to \$100,000	\$100,000 to \$200,000	Over \$200,000
Dependent on public timber.....	3.5	3.3	6.7	3.5	2.4
Competitive.....	5.1	9.1	7.6	2.8	5.1
Noncompetitive..	-0.1	-1.2	4.5	12.1	-2.6
Not dependent on public timber.....	3.1	4.3	9.8	1.7	1.6
All firms.....	3.3	4.0	7.9	2.8	2.0

Compensation of officers relatively  
high in small business corporations

In small business corporations compensation of officers averaged 2.4 percent of business receipts--a considerably higher ratio than the 1.0 percent average for all western lumber corporations (table 13). Among timber dependency classes there was little variation.

Table 13.--Compensation of officers or partners in percent of  
business receipts - western lumber industry - 1962

Type of firm	Corporations	Small business corporations	Partner- ships	Sole proprietor- ships <sup>1/</sup>
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	1.5	2.3	1.4	--
Competitive....	1.7	2.2	1.3	--
Noncompetitive.	1.2	2.6	2.0	--
Not dependent on public timber....	0.7	2.6	0.8	--
All firms.....	1.0	2.4	1.2	--

<sup>1/</sup> Not applicable.

In the case of partnerships, compensation of partners averaged 1.2 percent of business receipts--approximating the ratio for corporations but only half that for small business corporations. Compensation represented a somewhat larger figure relative to business receipts in the case of partnerships dependent on public timber than for those not dependent.

Both for small business corporations and for partnerships the ratio of compensation to business receipts was higher in the case of the smaller size enterprises than for the larger ones. These relationships are illustrated in table 14.

Table 14.--Compensation of officers or partners in percent of business receipts - western lumber small business corporations and partnerships - 1962

SMALL BUSINESS CORPORATIONS

Type of firm	Asset class		
	All classes	Under \$500,000	Over \$500,000
Dependent on public timber.....	2.3	3.2	1.8
Competitive.....	2.2	3.6	1.6
Noncompetitive.....	2.6	2.7	1/
Not dependent on public timber..	2.6	3.9	1.9
All firms.....	2.4	3.5	1.8

PARTNERSHIPS

Type of firm	Asset class		
	All classes	Under \$100,000	Over \$100,000
Dependent on public timber.....	1.4	8.1	1.0
Competitive.....	1.3	10.2	0.8
Noncompetitive.....	2.0	3.0	1.9
Not dependent on public timber..	0.8	2.2	0.5
All firms.....	1.2	4.5	0.8

1/ Combined to avoid disclosure.



Capital gains of major importance  
to "noncorporate" firms

Net long-term capital gains were of greater relative importance in the income of small business corporations, partnerships and sole proprietorships than in the case of corporations in the western lumber industry in 1962. Small business corporations, for example, reported long-term capital gains averaging 121 percent of net income, in contrast to 38 percent for western lumber corporations (table 15). In small business corporations dependent upon public timber, capital gains were approximately equal to the reported net income of this group. In small business corporations not dependent upon public timber, capital gains amounted to roughly three times the net income before tax.

Table 15.--Long-term capital gains in percent of net income before  
tax, by type of firm - western lumber industry - 1962

ALL FIRMS				
Type of firm	Corporations	Small business corporations	Partnerships	Sole proprietorships
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	100.6	101.3	165.4	43.6
Competitive....	78.8	100.1	114.3	26.2
Noncompetitive.	165.2	104.0	1/	1/
Not dependent on public timber....	28.5	305.0	1/	60.3
All firms.....	38.1	121.0	365.2	51.7

FIRMS REPORTING NET INCOME				
Dependent on public timber....	44.5	2/	40.5	2/
Competitive....	36.0	2/	41.1	2/
Noncompetitive.	63.2	2/	36.0	2/
Not dependent on public timber....	25.9	2/	27.4	2/
All firms.....	29.7	2/	37.3	2/

1/ Net losses reported by this group of firms.

2/ Data not available.



Capital gains reported by western lumber partnerships amounted to 365 percent of the combined net income of this group. This high ratio undoubtedly reflected the relatively low net income reported by partnerships.

Long-term capital gains of sole proprietorships averaged 52 percent of net income before tax--more than for corporations but substantially less than for small business corporations and partnerships.

Data for enterprises reporting net income for the year 1962, i.e., excluding firms that reported net losses, showed capital gains of partnerships to have averaged about 37 percent of net income, compared to about 30 percent for western lumber corporations.

### Eastern Lumber Corporations

In order to provide some general comparison of profits in western lumber firms with those operating in the eastern United States, a sample of 41 eastern lumber corporations was selected for detailed analysis. These corporations included firms estimated to produce more than 15 million board feet of lumber in 1962. Firms with substantial western operations were included only in the analysis for the western timber industry.

The 41 sample eastern lumber corporations had total assets of \$183 million in 1962, business receipts of \$183 million, and net income before tax of \$10 million. Only two of the 41 firms were classed as primarily dependent upon National Forest or other public timber. The grouping of these firms by asset size classes was as follows:

<u>Asset class</u>	<u>Number of firms</u>
Under \$500,000.....	5
\$500,000 to \$1,000,000....	7
\$1,000,000 to \$5,000,000..	17
Over \$5,000,000.....	<u>12</u>
Total.....	41

Profit ratios fairly comparable for  
eastern and western lumber corporations

Net earnings of the eastern lumber corporations, in terms of net income after tax in percent of net worth, averaged 5.4 percent -- in contrast to 6.1 percent for western lumber corporations (table 16). Net income after taxes in percent of business receipts showed a different relationship, with an average of 3.8 percent for eastern firms and 2.8 percent for western lumber corporations. The overall earning ratio, i.e., net income plus interest in percent of total assets, was almost identical for the two groups: 4.8 percent for eastern and 5.0 percent for western lumber corporations (table 17).

Table 16.--Net income after tax in percent of net worth and  
business receipts, eastern and western lumber  
corporations, 1962

Asset class	Net income in percent of net worth		Net income in percent of business receipts	
	Eastern firms	Western firms	Eastern firms	Western firms
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Under \$500,000.....	24.2	3.6	3.4	0.5
\$500,000 to \$1,000,000....	6.7	5.9	1.7	0.9
\$1,000,000 to \$5,000,000..	7.0	2.6	3.7	0.9
Over \$5,000,000.....	4.8	7.2	4.0	4.6
All classes.....	5.4	6.1	3.8	2.8

Table 17.--Net income after tax plus interest paid in percent  
of total assets - eastern and western  
lumber corporations - 1962

Asset class	Eastern firms	Western firms
Under \$500,000.....	9.8	3.3
\$500,000 to \$1,000,000....	4.2	4.5
\$1,000,000 to \$5,000,000..	5.9	2.8
Over \$5,000,000.....	4.4	6.2
All classes.....	4.8	5.0

Earnings in the smaller eastern corporations compared quite favorably with earnings in the larger size firms, in contrast to experience in western lumber corporations where smaller firms were considerably less profitable than the larger size corporations. The relatively high ratio of net income to net worth for small eastern corporations, shown in table 16, was apparently a reflection of the small net worth of this group, rather than an unusually high level of net income. Earnings of small eastern corporations in percent of business receipts were slightly below the average for all eastern lumber corporations.

Compensation of officers in eastern lumber corporations averaged 1.3 percent of business receipts (table 18), in contrast to 1.0 percent for western lumber corporations. Differences among most size classes also were relatively minor; in both the ratio tended to decline as firms become larger.



Table 18.--Compensation of officers in percent of  
business receipts - lumber  
corporations - 1962

Asset class	Eastern firms	Western firms
Under \$500,000.....	2.2	3.1
\$500,000 to \$1,000,000....	1.1	1.5
\$1,000,000 to \$5,000,000..	1.6	1.3
Over \$5,000,000.....	1.2	0.4
All firms.....	1.3	1.0

Net long-term capital gains  
a major part of net income

Long-term capital gains represented more than two-thirds of the net income before tax of eastern lumber firms (table 19)--in contrast to a ratio of approximately one-third for western lumber corporations. The relative importance of capital gains varied rather widely by asset size class, with the ratio of capital gains to net income tending to increase as firms increased in size.

Table 19.--Net long-term capital gains in percent of net income before tax - eastern lumber corporations - 1962

Asset class	Firms reporting net income	All firms
Under \$500,000.....	38.7	38.7
\$500,000 to \$1,000,000....	11.2	12.3
\$1,000,000 to \$5,000,000..	67.0	72.4
Over \$5,000,000.....	72.8	84.8
All firms.....	68.7	78.0

The ratio of tax liability to income subject to tax, i.e., the effective tax rate, averaged 31.4 percent for eastern lumber corporations in 1962, compared with 39.1 percent for western lumber corporations (table 20).

Table 20.--Income tax liability in percent of income subject to tax - lumber corporations - 1962

Asset class	Eastern firms	Western firms
Under \$500,000.....	31.2	29.7
\$500,000 to \$1,000,000....	40.8	37.6
\$1,000,000 to \$5,000,000..	33.9	37.4
Over \$5,000,000.....	29.5	40.0
All firms.....	31.4	39.1

The lower effective rate for eastern firms reflected the greater relative importance of long-term capital gains in the operations of the eastern firms. This in turn resulted to some degree from the greater prominence of the larger size firms in the eastern sample.

## PROFITS IN THE WESTERN PLYWOOD INDUSTRY

The 69 western plywood corporations included in this study had total assets of \$212,000,000 in 1962, business receipts of \$400,000,000 and net income before tax of \$6,000,000, as shown in table 1. Firms were grouped by timber dependency and asset classes as follows:

Type of firm	Assets			
	All classes	Under \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
Dependent on public timber.....	36	5	25	6
Competitive.....	36	5	25	6
Noncompetitive..	--	--	--	--
Not dependent on public timber.....	33	19	12	2
All firms.....	69	24	37	8

No small business corporations or sole proprietorships were classified in the plywood industry. Because of disclosure problems, no figures are presented for two partnerships classified in this industry.

### Profit ratios highest in firms dependent on public timber

Western plywood firms obtaining timber primarily from public lands showed an average net income after tax of 6.8 percent of net worth--far in excess of the 1 percent for firms not dependent on public timber (table 21). All of the firms classed as dependent on public timber were also classified as obtaining timber under competitive conditions.

Table 21.--Net income after tax in percent of net worth  
- western plywood corporations - 1962

Type of firm	Asset class			
	All classes	Under \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber.....	6.8	6.8	8.0	1/
Not dependent on public timber..	1.0	8.2	4.3	1/
All firms.....	4.4	7.9	7.0	2.7

1/ Combined to avoid possible disclosure.

Earnings by asset size class also differed rather sharply, with firms having assets of less than \$5,000,000 earning substantially more relative to net worth than larger firms.

Earnings in terms of net income after tax in percent of business receipts averaged 1.0 percent for all plywood firms, but also showed fairly large variations from a high of 1.6 percent for firms dependent on public timber to 0.2 percent for firms not dependent on public timber (table 22). Intermediate size firms showed the highest ratio of earnings to business receipts, whereas the smallest firms showed the best earning record when earnings are related to net worth.



Table 22.--Net income after tax in percent of business receipts  
- western plywood corporations - 1962

Type of firm	Asset class			
	All classes	Under \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber.....	1.6	0.4	1.4	<u>1/</u>
Not dependent on public timber.	0.2	0.6	0.8	<u>1/</u>
All firms.....	1.0	0.5	1.3	0.8

1/ Combined to avoid possible disclosure.

The overall earning rate, i.e., net income after tax plus interest paid in percent of total assets, averaged 4 percent in 1962 (table 23). Firms dependent on public timber averaged 4.8 percent earnings and non-dependent firms 3.1 percent. The smaller and intermediate size firms showed somewhat higher overall earnings than the larger firms.

Table 23.--Net income after tax plus interest paid in percent of  
total assets - western plywood corporations - 1962

Type of firm	Asset class			
	All classes	Under \$1,000,000	\$1,000,000 to \$5,000,000	Over \$5,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber.....	4.8	3.6	5.2	<u>1/</u>
Not dependent on public timber.	3.1	5.1	3.5	<u>1/</u>
All firms.....	4.0	4.7	4.7	3.4

1/ Combined to avoid possible disclosure.

### Compensation of officers

Compensation of officers averaged 0.6 percent of business receipts for western plywood corporations in 1962, as shown by the following tabulation:

<u>Asset class</u>	<u>Compensation of officers</u>	<u>Net income after tax</u>	<u>Total</u>
Under \$1,000,000.....	0.8	0.5	1.3
\$1,000,000 to \$5,000,000.....	0.5	1.3	1.8
Over \$5,000,000.....	<u>0.6</u>	<u>0.8</u>	<u>1.4</u>
All classes.....	0.6	1.0	1.6

When compensation of officers is combined with net income after tax in percent of business receipts, the spread among size classes is substantially reduced, as was the case also for western lumber corporations.

### Capital gains of major importance

Net long-term capital gains accounted for a large part of net income in the plywood industry in 1962, as in other segments of the timber based industries. Capital gains made up 62.8 percent of net income before tax for all western plywood firms, and 43.2 percent for western plywood corporations reporting net income in 1962 (table 24)--in contrast to 38 percent for western lumber corporations. The relative importance of capital gains was considerably greater for firms dependent on public timber.

Table 24.--Net long-term capital gains in percent of net income  
before tax - western plywood corporations - 1962

Type of firm	Firms reporting net income	All firms
Dependent on public timber.....	57.3	64.5
Not dependent on public timber...	<u>4.8</u>	<u>53.6</u>
All firms.....	43.2	62.8

The effective tax rate, i.e., income tax liability in percent of income subject to tax, was 37.6 percent for all plywood firms, with dependent firms averaging 35.8 percent and nondependent firms 44.3 percent.

## PROFITS IN THE WESTERN PULP AND PAPER INDUSTRY

Firms classed in the western pulp and paper industry included 15 corporations having total assets of \$1,500 million, business receipts of \$1,200 million, and net income before taxes of \$141 million, as shown in table 1. These firms were grouped by dependency upon public timber and by asset size class as follows:

<u>Type of firm</u>	<u>All firms</u>	<u>Assets under \$50,000,000</u>	<u>Assets over \$50,000,000</u>
Dependent on public timber.....	5	--	5
Competitive.....	5	--	5
Noncompetitive.....	--	--	--
Not dependent on public timber.	<u>10</u>	<u>7</u>	<u>3</u>
All firms.....	15	7	8

### Profit ratios relatively uniform

Western pulp and paper corporations showed an average net income after tax of 9.1 percent of net worth (table 25). Earnings differed relatively little either by dependency upon public timber or by asset class. The firms having assets under \$50 million were somewhat less profitable than the larger corporations but the difference was small.



Table 25.--Net income after tax in percent of net worth in western pulp and paper corporations, 1962

Type of firm	Asset class		
	All classes	Under \$50 million	Over \$50 million
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	9.4	--	9.4
Not dependent on public timber	<u>9.1</u>	<u>7.7</u>	<u>9.2</u>
All firms.....	9.1	7.7	9.3

Earnings in terms of net income after tax in percent of business receipts averaged 7.4 percent (table 26). As in the case of ratios based upon net worth, there was relatively little variation among the different sub-groups of the industry.

Table 26.--Net income after tax in percent of business receipts in western pulp and paper corporations, 1962

Type of firm	Asset class		
	All classes	Under \$50 million	Over \$50 million
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	7.0	--	7.0
Not dependent on public timber	<u>7.5</u>	<u>5.2</u>	<u>7.7</u>
All firms.....	7.4	5.2	7.6

The overall earning ratio, i.e., net income after tax plus interest paid in percent of total assets, averaged 6.8 percent (table 27). Firms dependent on public timber were somewhat less profitable than those not dependent, and larger corporations were more profitable than the smaller firms.

Table 27.--Net income after tax plus interest paid in percent of total assets - western pulp and paper corporations - 1962

Type of firm	Asset class		
	All classes	Under \$50 million	Over \$50 million
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber....	5.7	--	5.7
Not dependent on public timber	<u>7.3</u>	<u>6.0</u>	<u>7.5</u>
All firms.....	6.8	6.0	6.9

Officers' compensation averaged 0.3 percent of business receipts for western pulp and paper corporation--considerably less than the average of 1.0 percent for western lumber corporations. A differential would be expected in view of the larger average size of enterprise in the pulp and paper industry.

Capital gains of considerable importance

For all western pulp and paper corporations net long-term capital gains in 1962 averaged 29.3 percent of net income before tax (table 28). Capital gains were relatively more important for firms dependent on public timber.

Table 28.--Net long-term capital gains in percent of  
net income before tax - western pulp  
and paper corporations - 1962

Type of firm	Firms reporting net income	All firms
Dependent on public timber.....	40.0	46.2
Not dependent on public timber	<u>25.5</u>	<u>25.5</u>
All firms.....	28.5	29.3

Capital gains were somewhat less of a factor in the pulp and paper industry than in the western lumber industry, for example, where capital gains accounted for 38 percent of net income before tax.

The effective tax rate, i.e., tax liability in percent of income subject to tax, averaged 39.1 percent for all western pulp and paper firms in 1962.

## PROFITS IN THE WESTERN DIVERSIFIED TIMBER INDUSTRY

The 22 western "diversified" corporations included in the study had total assets of \$3,500 million in 1962, business receipts of \$3,000 million, and net income before tax of \$232 million, as shown in table 1. These enterprises accounted for nearly half of the business receipts, and more than half of the assets, of all firms in the ~~combined~~ western timber industries.

Diversified firms were grouped by timber dependency and asset classes as follows:

<u>Type of firm</u>	<u>Asset class</u>			
	<u>All firms</u>	<u>Under \$10,000,000</u>	<u>\$10,000,000 to \$50,000,000</u>	<u>Over \$50,000,000</u>
Dependent on public timber	10	3	4	3
Not dependent on public timber	<u>12</u>	<u>3</u>	<u>3</u>	<u>6</u>
All firms.....	22	6	7	9

### Profit ratios highest in firms not dependent on public timber

Earnings after tax of western diversified corporations averaged 6.2 percent of net worth in 1962 (table 29). Firms dependent upon public timber showed average earnings of 4.5 percent of net worth, compared with 6.3 percent for firms not dependent on public timber. Average earnings for different asset and dependency classes showed wide differences, as in the case of other types of western industries.



Table 29.--Net income after tax in percent of net worth in western diversified timber corporations, 1962

Type of firm	Asset class			
	All classes	Under \$10,000,000	\$10,000,000 to \$50,000,000	Over \$50,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber	4.5	9.6	9.0	1.6
Not dependent on public timber	6.3	-7.7	4.6	6.4
All firms.....	6.2	5.4	6.6	6.2

Net income after tax in percent of business receipts averaged 5.2 percent (table 30). Earning ratios for firms not dependent on public timber were considerably greater than for dependent firms. Earning ratios also varied rather widely by asset class from a low of 1.8 percent of business receipts for smaller corporations to 6.6 percent for intermediate size firms.

Table 30.--Net income after tax in percent of business receipts in western diversified timber corporations, 1962

Type of firm	Asset class			
	All classes	Under \$10,000,000	\$10,000,000 to \$50,000,000	Over \$50,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber	2.5	4.4	7.9	0.7
Not dependent on public timber	5.5	-1.4	5.2	5.6
All firms.....	5.2	1.8	6.6	5.2

The overall earning rate, i.e., net income after tax plus interest paid in percent of total assets, averaged 5.5 percent for all firms (table 31). Dependent firms were somewhat less profitable than firms not dependent on public timber. As in the case of other ratios, earnings showed rather wide variations by asset class.

Table 31.--Net income after tax plus interest paid in percent of total assets - western diversified timber products corporations - 1962

Type of firm	Asset class			
	All classes	Under \$10,000,000	\$10,000,000 to \$50,000,000	Over \$50,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber	4.3	5.8	7.7	3.4
Not dependent on public timber	5.6	-0.8	4.4	5.6
All firms.....	5.5	3.8	5.9	5.4

Officers' compensation averaged 0.2 percent of business receipts for western diversified corporations, ranging from 0.8 percent of business receipts for the smaller and intermediate size corporations to 0.2 percent for firms having assets of over \$50 million.

#### Capital gains relatively important

For all western diversified timber corporations, net long-term gains in 1962 averaged 62.3 percent of net income before tax

(table 32). This was about the same as reported by the plywood industry but considerably more than the average of 38 percent reported by western lumber corporations.

Table 32.--Net long-term capital gains in percent of net income before tax - western diversified timber industry - 1962

Type of firm	Firms reporting net income	All firms
Dependent on public timber....	60.2	103.8
Not dependent on public timber	59.8	59.9
All firms.....	59.8	62.3

The effective tax rate, i.e., tax liability in percent of income subject to tax, averaged 32.2 percent for diversified firms (table 33). There was little difference in effective tax rates between dependent and nondependent firms, but rates were higher for the smaller firms.

Table 33.--Federal income tax liability in percent of income subject to tax - western diversified corporations - 1962

Type of firm	Asset class			
	All classes	Under \$10,000,000	\$10,000,000 to \$50,000,000	Over \$50,000,000
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Dependent on public timber	30.1	44.8	34.6	17.9
Not dependent on public timber	32.3	27.0	30.5	32.4
All firms.....	32.2	44.3	33.1	32.1

## INTERINDUSTRY COMPARISONS OF PROFITS

Relative earnings of corporations classed in the lumber, plywood, pulp and paper, and diversified timber industries, are summarized in the following section. Comparisons between corporate earnings and earnings of other types of business such as partnerships were relevant only in the lumber industry; these comparisons are shown in the section of this report dealing with the lumber industry.

Western plywood firms showed  
lowest earning rates in 1962

Corporations classified in the western plywood industry realized an average earning rate of 4.4 percent in terms of corporate net income after tax in percent of net worth (table 3<sup>4</sup> and figure 4). This compared with an average of 6.1 percent for western lumber corporations, 6.2 percent for western "diversified" firms, and a little more than 9 percent for the western pulp and paper industry. Eastern lumber corporations averaged 5.4 percent and thus fell within the range characterizing the western timber industry.



# PROFIT RATIOS AFTER TAX--TIMBER PRODUCTS CORPORATIONS, 1962

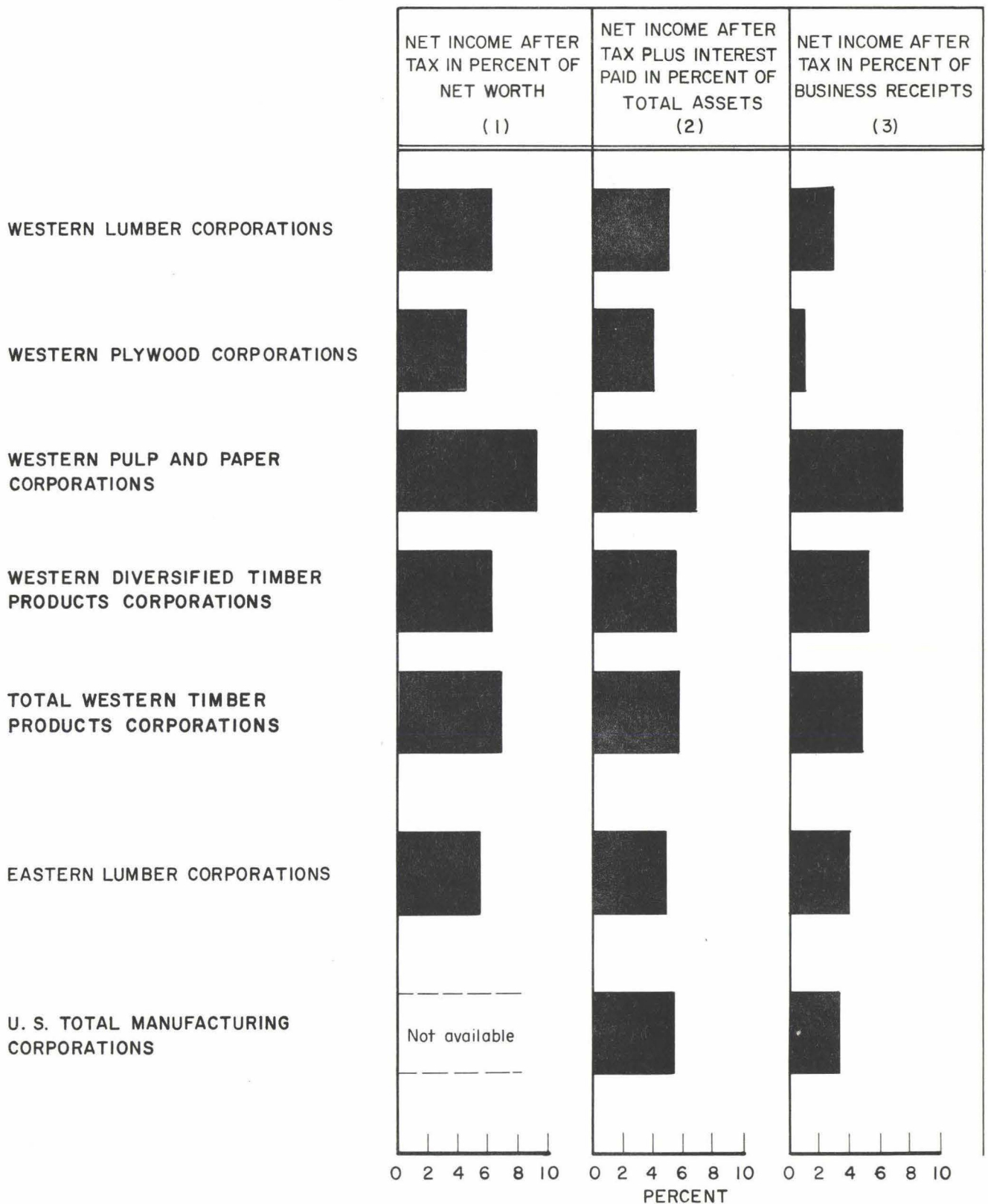


Figure 4

Table 34.--Net income after tax in percent of net worth  
- western timber corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations					
Lumber.....	6.1	2.2	3.4	1.1	7.9
Plywood.....	4.4	6.8	6.8	--	1.0
Pulp & Paper....	9.1	9.4	9.4	--	9.1
Diversified.....	6.2	4.5	--	--	6.3
Total.....	6.8	5.1	--	--	7.1
Eastern lumber corporations.....	5.4	--	--	--	--
U.S. total manufacturing corporations	<u>1/</u>	--	--	--	--

1/ Not available

Net income after tax in percent of business receipts (table 35 and figure 4) showed essentially the same pattern among industries as earnings in percent of net worth. Differences among segments of the industry were somewhat more pronounced, however, than in the case of ratios of earnings to net worth. Thus ratios of net income to business receipts ranged from 1.0 percent in the plywood industry to 7.4 percent in the pulp and paper industry. Eastern lumber corporations averaged 3.8 percent.

Table 35.--Net income after tax in percent of business receipts  
- western timber corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:					
Lumber.....	2.8	0.8	1.0	0.5	4.2
Plywood.....	1.0	1.6	1.6	--	0.2
Pulp & Paper....	7.4	7.0	7.0	--	7.5
Diversified.....	5.2	2.5	--	--	5.5
Total.....	4.7	2.2	--	--	5.5
Eastern lumber corporations.....	3.8	--	--	--	--
U.S. total manufac- turing corporations	3.2	--	--	--	--

Net income after tax plus interest paid in percent of total assets, i.e., the overall earning rate showed results similar to the two ratios just discussed (table 36 and figure 4). Plywood corporations had average earnings of 4 percent of total assets and pulp and paper corporations 6.8 percent, with other segments of the industry falling within this range. It is significant that the overall earning rate showed

Table 36.--Net income after tax plus interest paid in percent of total assets - western timber products corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:					
Lumber.....	5.0	2.7	3.3	1.8	6.5
Plywood.....	4.0	4.8	4.8	--	3.1
Pulp & Paper....	6.8	5.7	5.7	--	7.3
Diversified.....	5.5	4.3	--	--	5.6
Total.....	5.7	4.3	--	--	6.0
Eastern lumber corporations.....	4.8	--	--	--	--
U.S. total manufacturing corporations	5.3	--	--	--	--

relatively more uniform results as among segments of the industry than does the ratio of earnings to net worth, shown in table 34, which is affected to a greater extent by the capital structure of reporting firms.

Profits in timber industry compared favorably with those for all manufacturing corporations

Net income after tax in percent of business receipts for all western timber corporations averaged 4.7 percent in 1962, as contrasted with 3.2 percent for all U.S. manufacturing corporations (table 35). The overall earning rates were within one-half percentage point. Profits plus interest paid averaged 5.7 percent of total assets for western timber



corporations, compared with 5.3 percent for all U.S. manufacturing corporations. Statistics of income data for 1962 are not available for computing earnings ratios based on net worth due to the fact that certain balance sheet items on the tax return were not tabulated for that year.

Relationship between earnings  
and dependence on public timber  
not consistent

The three profit ratios contained in tables 34-36 inclusive show western timber corporations "dependent" upon public timber, taken as a group, to be less profitable than those "not dependent." Net income after tax in percent of net worth averaged 5.1 percent for "dependent" corporations and 7.1 percent for those "not dependent." Net income after tax in percent of business receipts averaged 2.2 percent and 5.5 percent for "dependent" and "not-dependent" firms respectively. Net income after tax plus interest paid as percent of total assets averaged 4.3 percent for "dependent" firms and 6.0 percent for "not-dependent" firms.

Lumber and diversified forest products corporations dependent on public timber were less profitable than similar not-dependent corporations. In the case of plywood corporations, on the other hand, dependent firms were more profitable than those not dependent. In the pulp and paper industry, differences in earnings between the two dependency classes were minor.

Corporations in the lumber industry classed as "competitive," i.e., those paying more than 5 percent above the appraised price for public timber, were somewhat more profitable than those classed as "noncompetitive." Earnings after tax averaged 3.4 percent of net worth in the competitive group, for example, and 1.1 percent in the noncompetitive group (table 34). The other two profit ratios showed similar results (tables 35 and 36).

Earnings not closely correlated  
with size of enterprise

In the western pulp and paper industry corporations having assets of \$50 million or more showed an overall earning rate of 6.9 percent, as contrasted with smaller enterprises which averaged 6.0 percent (table 27). Western diversified timber corporations showed some tendency for earnings to increase with size (table 31). Earnings of corporations having under \$10 million in assets averaged 3.8 percent of total assets as contrasted with an earning rate of between 5 and 6 percent for larger firms. Corporations having assets of \$50 million or more showed an earning rate one-half percentage point lower than those having assets between \$10 and \$50 million.

Western lumber corporations showed no correlation of earnings with size of enterprise and this was true also of eastern lumber corporations (table 17). Western plywood corporations, on the other hand, showed some tendency for earnings to decrease as asset size increased (table 23).

Officers compensation related  
to size of enterprise

Compensation of officers in percent of business receipts varied widely among segments of the timber industry, from 1.3 percent for eastern lumber corporations to 0.2 percent for western diversified timber corporations (table 37). The average of 0.5 percent for all western corporations also was considerably below the average of 1.3 percent for all U.S. manufacturing corporations. In considering officers compensation the wide variation mentioned earlier in treatment of expense accounts, stock options, bonuses and retirement and other fringe benefits needs to be borne in mind.

Table 37.--Compensation of officers in percent of business receipts  
western forest products corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	Percent	Percent	Percent	Percent	Percent
Western corporations:					
Lumber.....	1.0	1.5	1.7	1.2	0.7
Plywood.....	0.6	0.6	0.6	--	0.6
Pulp & Paper....	0.3	0.3	0.3	--	0.3
Diversified....	0.2	0.6	--	--	0.2
Total	0.5	1.0	--	--	0.3
Eastern lumber corporations	1.3	--	--	--	--
U.S. total manufac- turing corporations	1.3	--	--	--	--

The relative importance of compensation of officers was greatest in small firms. The lumber and plywood industries, in which relatively small firms predominate, consequently showed higher ratios for compensation of officers than did the pulp and paper and diversified timber industries. This size structure of the western timber industries is indicated in the following tabulation:

<u>Industry</u>	<u>Percent of sample firms having assets of less than \$5 million</u>
Lumber corporations.....	96
Plywood corporations.....	88
Pulp & paper corporations.....	0
Diversified corporations.....	23

Compensation of officers was of greater relative importance among firms dependent on public timber than among firms not dependent, presumably reflecting differences in average size of firms in these two categories. This was particularly true for firms in the lumber and diversified timber industry (table 37).



When officers' compensation is combined with net income after tax, the various segments of the western timber industry showed somewhat more comparable earning ratios than shown by net income alone (table 38). The combination of interest paid plus net income and compensation of officers--a very rough measure of total earnings--varied from only 2.7 percent of business receipts for plywood corporations to 9.3 percent for pulp and paper corporations.

Table 38.--Net income after taxes, interest paid, and compensation of officers in percent of business receipts  
- timber corporations - 1962

Industry	Net income	Compensation of officers	Interest paid	Total
Western firms:				
Lumber.....	2.8	1.0	0.8	4.6
Plywood.....	1.0	0.6	1.1	2.7
Pulp & paper.....	7.4	0.3	1.6	9.3
Diversified.....	5.2	0.2	1.1	6.5
Total.....	4.7	0.5	1.1	6.3
Eastern lumber corporations	3.8	1.3	1.8	6.9
U.S. total manufacturing corporations.....	3.2	1.3	0.6	5.1

Long-term capital gains of major  
importance in the timber industries

Net long-term capital gains reported by western timber corporations as a group amounted to nearly \$220 million in 1962 (table 39). Of this sum roughly two-thirds were reported by diversified timber corporations and about one-fifth by pulp and paper corporations. Western lumber corporations reported capital gains of \$29.2 million and western plywood corporations \$3.9 million. For all U.S. manufacturing corporations capital gains in 1962 totaled \$1.1 billion.

Table 39.--Net long-term capital gains, by industry, 1962

Industry	Net long-term capital gains	Ratio net long- term capital gains to net income before tax	Ratio net long- term capital gains to total income <sup>1/</sup>
	<u>Thousand dollars</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:			
Lumber.....	29,165	38.1	6.9
Plywood.....	3,852	62.8	5.6
Pulp & paper.....	41,418	29.3	6.9
Diversified.....	144,191	62.3	13.0
Total.....	218,626	48.0	9.9
Eastern lumber corporations	7,846	78.0	17.3
U.S. total manufacturing corporations.....	1,096,838	4.4	0.9

<sup>1/</sup>Total income is defined as gross profit (i.e., gross sales less returns and less cost of goods sold and/or cost of operations) plus dividends, interest, rents, royalties, gains (losses) from Schedule D, and other income.

Net long-term capital gains in percent of net income before tax averaged 48 percent for western timber corporations, compared with 4.4 percent for all manufacturing corporations in the U.S. Western plywood and diversified timber corporations showed ratios in excess of 60 percent, and pulp and paper corporations just under 30 percent.

The ratio of net long-term capital gains to "total income" is likewise shown in table 39. By this yardstick also, long-term capital gains were roughly ten times as important in the case of western timber corporations (9.9 percent) as for all U.S. manufacturing corporations. Diversified timber corporations showed the highest ratio of 13 percent, with other western timber corporations averaging between 6 and 7 percent.

Net long-term capital gains in percent of net income before tax for all western timber corporations are shown in table 40. Capital gains of these corporations reporting net income in 1962 are contained in table 41. The latter table, as would be anticipated, shows ratios several percentage points lower than does the former.



Table 40.--Net long-term capital gains as percent of net income before tax - western timber products corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:					
Lumber.....	38.1	100.6	78.8	165.2	28.5
Plywood.....	62.8	64.5	--	--	53.6
Pulp & paper....	29.3	46.2	--	--	25.5
Diversified.....	62.3	103.8	--	--	59.9
Total.....	48.0	71.6	--	--	44.8
Eastern lumber corporations.....	78.0	--	--	--	--
U.S. total manufacturing corporations	4.4	--	--	--	--

Table 41.--Net long-term capital gains as percent of net income before tax - western timber products corporations reporting net income - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:					
Lumber.....	29.7	44.5	36.0	63.2	25.9
Plywood.....	43.2	57.3	--	--	4.8
Pulp & paper....	28.5	40.0	--	--	25.5
Diversified.....	59.8	60.2	--	--	59.8
Total.....	44.4	47.1	--	--	44.0
Eastern lumber corporations.....	68.7	--	--	--	--
U.S. total manufacturing corporations	3.7	--	--	--	--



The relative importance of long term capital gains did not differ greatly by dependence upon public timber. When capital gains as percent of net income are considered from the standpoint of corporations reporting net income in 1962, dependent firms averaged 47 percent and firms not dependent upon public timber 44 percent (table 41). The same conclusion is drawn when taking the ratio of long term capital gains to total income. For all western timber products corporations this ratio was 9.9 percent (table 39). For dependent firms the ratio was 9.6 percent and for non-dependent firms 10.8 percent.

An apparent difference in the importance of capital gains as between dependent and nondependent firms is shown in table 40 which includes both corporations reporting net income and those operating at a deficit in 1962. Here long term capital gains averaged 72 percent of net income before tax in the case of dependent firms and only 45 percent in the case of nondependent firms. This difference reflects the fact that deficit income corporations affected the aggregate net income of dependent firms to a greater extent than they did that of nondependent firms.

Effective tax rates averaged 36 percent  
for western timber corporations

Federal income tax liability in percent of income subject to tax varied from 32 percent for diversified timber firms to 39 percent for western lumber and pulp and paper corporations (table 42). For eastern lumber corporations, tax liability averaged 31 percent of income subject to tax. For all manufacturing corporations in the United States the effective tax rate was just over 48 percent.

Table 42.--Federal income tax liability in percent of income  
subject to tax - western timber products  
corporations - 1962

Industry	All firms	Dependent on public timber			Not dependent on public timber
		Total	Competitive	Not competitive	
	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Western corporations:					
Lumber.....	39.1	33.5	35.4	28.7	40.4
Plywood.....	37.6	35.8	--	--	44.3
Pulp & paper.....	39.1	38.3	--	--	39.3
Diversified.....	32.2	30.1	--	--	32.3
Total.....	35.7	35.2	--	--	35.7
Eastern lumber corporations.....	31.4	--	--	--	--
U.S. total manufac- turing corporations.	48.3	--	--	--	--

The lower effective rate for timber firms reflects in large measure the importance of timber capital gains in the forest industries. Taken as a group there was little difference between corporations dependent upon public timber and those "not dependent" from the standpoint of the effective tax rate.

APPENDIX

BASIC STATISTICS

# APPENDIX TABLES AND FIGURE

<u>Table</u>	<u>Page</u>
1 - Corporate net income as a percent of net worth by selected industry groups, 1947-64.....	A-1
2 - Corporate net income as a percent of business receipts by selected industry groups, 1947-64.....	A-3
3 - Statistics of income--western lumber corporations, 1962....	A-6
4 - Statistics of income--western lumber small business corporations, 1962.....	A-7
5 - Statistics of income--western lumber partnerships, 1962....	A-8
6 - Statistics of income--western lumber sole proprietorships, 1962.....	A-9
7 - Statistics of income--eastern lumber corporations, 1962....	A-10
8 - Statistics of income--western plywood corporations, 1962...	A-11
9 - Statistics of income--western pulp and paper corpora- tions, 1962.....	A-12
10 - Statistics of income--western diversified timber corpora- tions, 1962.....	A-13

## Figure

1 - Corporate net income after tax as a percent of business receipts by selected industry groups, 1962.....	A-5
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Appendix Table 1.--Corporate net income as a percent of net worth  
by selected industry groups, 1947-64

Year	Lumber and wood products				Logging, sawmills and planing mills				Paper and allied products			
	Before taxes		After taxes		Before taxes		After taxes		Before taxes		After taxes	
	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC
1947	33.8	36.0	22.5	22.9	33.9	--	22.6	--	31.8	35.9	20.2	22.1
1948	26.9	30.4	18.6	19.4	28.1	--	19.2	--	24.4	26.7	15.6	16.4
1949	12.7	14.2	10.2	9.1	12.9	--	10.1	--	16.4	17.3	10.9	10.7
1950	26.7	29.3	16.8	17.4	28.1	--	17.6	--	26.1	28.3	15.5	16.1
1951	20.7	23.6	12.7	12.0	21.6	--	13.7	--	31.0	35.6	12.6	14.0
1952	13.1	15.2	7.7	8.5	--	--	--	--	21.0	24.0	10.4	10.4
1953	11.5	12.7	6.6	7.1	12.4	--	8.7	--	19.7	22.4	9.8	10.1
1954	12.3	11.5	8.5	6.3	12.9	--	8.8	--	17.6	20.1	9.2	9.9
1955	17.8	19.3	11.8	11.1	19.7	--	13.1	--	20.2	23.0	10.7	11.5
1956 <sup>1/</sup>	11.3	15.0	6.7	8.7	12.5	--	8.0	--	21.5	22.7	11.0	11.6
1957	6.3	8.8	3.3	4.7	5.6	--	3.0	--	15.8	17.5	7.9	8.9
1958	9.0	10.4	5.3	5.7	8.4	--	5.3	--	13.3	14.9	6.6	7.6
1959	12.7	16.1	7.9	9.3	13.7	--	8.9	--	11.7	18.4	6.1	9.5
1960	5.3	7.2	2.4	3.6	5.8	--	3.0	--	14.2	16.5	7.3	8.5
1961	5.6	7.2	2.8	4.0	4.9	--	2.7	--	13.2	15.1	6.8	7.8
1962	--	9.3	2/ 4.4	5.6	--	--	--	--	--	15.6	2/ 6.9	8.1
1963	--	12.9	2/ 6.4	8.2	--	--	--	--	--	15.6	2/ 6.9	8.1
1964	--	15.4	2/ 7.7	9.9	--	--	--	--	--	16.2	2/ 7.9	9.3

Appendix Table 1.--Corporate net income as a percent of net worth  
by selected industry groups, 1947-64--Continued

Year	Pulp, paper & paperboard				Stone, clay, and glass products				All Manufacturing			
	Before taxes		After taxes		Before taxes		After taxes		Before taxes		After taxes	
	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC
1947	31.0	--	19.5	--	21.6	23.2	14.2	14.0	21.7	25.5	14.6	15.6
1948	25.0	--	15.8	--	23.0	24.3	14.3	15.0	20.2	25.5	13.3	16.0
1949	16.6	--	10.8	--	20.5	21.0	12.8	13.1	15.9	18.6	9.8	11.6
1950	25.6	--	14.1	--	30.2	32.8	17.9	17.6	24.3	27.7	14.5	15.4
1951	30.4	--	12.3	--	27.2	34.6	13.8	14.2	23.6	28.0	11.8	12.1
1952	--	--	--	--	20.6	25.5	10.1	11.6	18.5	22.1	9.3	10.3
1953	19.4	--	9.1	--	21.1	26.0	10.3	11.8	18.7	22.6	9.3	10.5
1954	17.6	--	9.0	--	20.0	23.6	9.8	12.5	15.3	18.5	7.4	9.9
1955	19.7	--	10.3	--	26.2	30.3	12.9	15.6	19.7	23.8	9.9	12.6
1956 <sup>1/</sup>	21.3	--	11.1	--	22.0	28.4	10.9	14.8	17.6	22.6	8.8	12.3
1957	15.0	--	7.6	--	16.8	23.1	8.2	12.3	15.5	20.0	7.6	10.9
1958	12.1	--	6.1	--	14.1	19.4	6.9	10.5	11.9	15.4	5.8	8.6
1959	15.4	--	8.3	--	17.9	23.6	8.7	12.7	15.4	18.9	7.7	10.4
1960	13.3	--	7.1	--	14.0	18.6	6.6	9.9	13.1	16.7	6.3	9.2
1961	11.7	--	6.1	--	13.5	16.7	6.3	8.8	12.7	15.9	6.2	8.8
1962	--	--	--	--	--	16.7	--	8.8	--	17.6	<sup>2/</sup> 6.9	9.8
1963	--	--	--	--	--	16.3	--	8.7	--	18.4	<sup>2/</sup> 7.0	10.0
1964	--	--	--	--	--	17.0	--	9.6	--	19.8	<sup>2/</sup> 8.2	11.6

<sup>1/</sup> FTC sample changed

<sup>2/</sup> Estimated

Source: Internal Revenue Service, U.S. Treasury Dept., Statistics of Income, and Federal Trade Commission, Profit Rates of Manufacturing Corporations 1947-62; Quarterly Financial Reports.

Appendix Table 2.--Corporate net income as a percent of business  
receipts by selected industry groups, 1947-64

Year	Lumber and wood products				Logging, sawmills and planing mills				Paper and allied products			
	Before taxes		After taxes		Before taxes		After taxes		Before taxes		After taxes	
	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC
1947	16.3	18.1	10.9	11.4	16.4	--	10.9	--	16.4	17.4	10.4	10.7
1948	12.2	15.4	8.4	9.8	14.7	--	10.0	--	13.2	13.8	8.5	8.5
1949	6.9	9.3	5.5	6.0	8.2	--	6.4	--	10.3	10.5	6.9	6.5
1950	12.7	15.5	8.0	9.3	14.8	--	9.3	--	14.8	15.1	8.8	8.6
1951	9.6	10.8	5.9	5.4	11.8	--	7.5	--	16.1	16.7	6.6	6.5
1952	6.8	7.3	3.0	4.0	--	--	--	--	12.3	13.0	6.1	5.7
1953	5.9	6.3	3.3	3.5	8.6	--	6.0	--	11.4	12.0	5.6	5.4
1954	6.4	6.1	4.4	3.3	8.1	--	5.6	--	11.2	11.5	5.8	5.6
1955	8.1	9.5	5.4	5.4	10.8	--	7.1	--	11.6	12.3	6.1	6.1
1956 <sup>1/</sup>	5.6	6.7	3.4	3.9	7.8	--	5.0	--	12.4	12.0	6.4	6.1
1957	3.4	4.2	1.8	2.3	4.0	--	2.1	--	9.3	9.8	4.7	5.0
1958	4.9	4.9	2.9	2.6	6.0	--	3.8	--	8.2	8.7	4.1	4.5
1959	5.9	7.0	3.7	4.1	8.2	--	5.3	--	9.7	10.2	5.1	5.2
1960	2.6	3.4	1.2	1.6	3.6	--	2.0	--	8.6	9.6	4.4	5.0
1961	2.8	3.4	1.4	1.8	3.1	--	1.7	--	7.9	8.9	4.1	4.6
1962	3.2	3.9	1.8	2.3	--	--	--	--	7.3	8.9	3.9	4.6
1963	--	5.0	<u>2/</u> 2.8	3.2	--	--	--	--	--	8.6	<u>2/</u> 4.2	4.5
1964	--	6.1	<u>2/</u> 3.4	3.9	--	--	--	--	--	8.9	<u>2/</u> 4.8	5.1

A-3



Appendix Table 2.--Corporate net income as a percent of business receipts  
by selected industry groups, 1947-64--Continued

Year	Pulp, paper & paperboard				Stone, clay, and glass products				All Manufacturing			
	Before taxes		After taxes		Before taxes		After taxes		Before taxes		After taxes	
	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC	IRS	FTC
1947	19.3	--	12.1	--	12.6	13.2	8.2	7.9	9.4	11.0	6.3	6.8
1948	16.4	--	10.4	--	13.1	13.9	8.1	8.6	8.9	11.1	5.9	7.0
1949	13.1	--	8.5	--	12.9	13.9	8.0	8.6	7.9	9.3	4.9	5.8
1950	17.6	--	9.7	--	17.2	18.5	10.2	10.0	11.2	12.6	6.7	7.0
1951	19.1	--	7.7	--	14.8	17.3	7.5	7.1	10.1	11.2	5.0	4.8
1952	--	--	--	--	11.8	14.4	5.9	6.5	8.1	9.2	4.1	4.0
A-4 1953	19.4	--	9.1	--	12.0	14.3	5.9	6.5	7.9	9.2	3.9	4.1
1954	12.9	--	6.6	--	12.2	13.9	6.0	7.3	7.1	8.4	3.4	4.5
1955	14.4	--	7.5	--	14.9	16.6	7.4	8.5	8.8	10.2	4.4	5.4
1956 <sup>1/</sup>	15.1	--	7.8	--	13.4	15.7	6.6	7.5	8.0	9.7	4.0	5.2
1957	11.2	--	5.7	--	10.8	13.9	5.3	7.5	7.1	8.8	3.5	4.8
1958	9.6	--	4.8	--	8.9	12.6	4.3	6.7	5.7	7.4	2.8	4.1
1959	11.4	--	6.1	--	10.3	14.4	5.0	7.7	7.0	8.8	3.5	4.8
1960	9.8	--	5.2	--	8.5	12.3	4.0	6.5	6.1	7.9	2.9	4.4
1961	8.6	--	4.5	--	8.4	10.7	4.0	5.6	6.1	7.7	3.0	4.2
1962	7.9	--	4.4	--	7.6	10.2	3.6	5.4	6.3	8.2	3.2	4.6
1963	--	--	--	--	--	9.5	--	5.0	--	8.5	2/3.3	4.7
1964	--	--	--	--	--	9.8	--	5.5	--	8.9	2/3.7	5.2

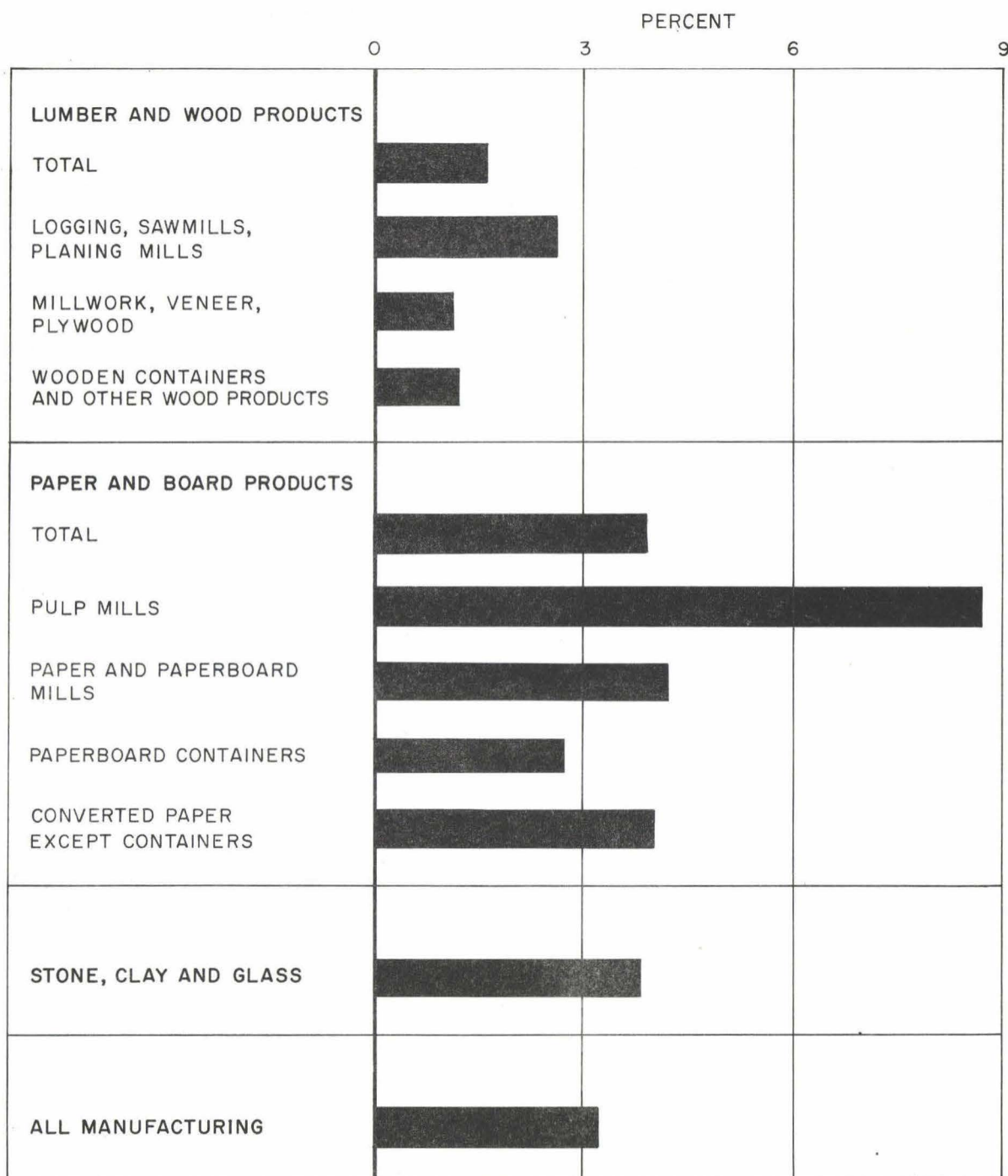
<sup>1/</sup> FTC sample changed

<sup>2/</sup> Estimated

Source: Internal Revenue Service, U.S. Treasury Dept., Statistics of Income, and Federal Trade Commission, Profit Rates of Manufacturing Corporations 1947-62; Quarterly Financial Reports.



**CORPORATE NET INCOME AFTER TAX AS A PERCENT  
OF BUSINESS RECEIPTS, 1962  
UNITED STATES**



SOURCE: INTERNAL REVENUE SERVICE, U. S. TREASURY DEPT., STATISTICS OF INCOME

**Appendix Figure 1**

Appendix Table 3.--Statistics of Income--Western Lumber  
Corporations, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber			Not dependent on public timber
		All	Compet- itive	Noncom- petitive	
Total Assets	1,118,644	423,787	239,347	184,440	694,857
Land	52,615	17,240	10,833	6,407	35,375
Depreciable assets	797,398	270,686	157,235	113,451	526,712
Accumulated amortiza- tion and depreciation	435,766	162,190	92,622	69,568	273,576
Net depreciable assets	361,632	108,496	64,613	43,882	253,136
Physical assets	702,145	262,212	147,022	115,190	439,933
Inventories	223,886	107,603	57,337	50,266	116,283
Net worth	725,751	233,500	114,997	118,503	492,251
Total income	421,032	150,410	87,632	62,778	270,622
Business receipts	1,589,175	673,300	407,168	266,132	915,875
Net long-term capital gains	29,165	10,311	6,030	4,281	18,854
Compensation of Officers	16,011	10,048	6,746	3,302	5,963
Interest paid	12,158	6,077	4,005	2,072	6,081
Depreciation	54,044	18,224	11,937	6,287	35,820
Depletion	74,409	43,686	40,373	3,313	30,723
Net income (or loss)	76,497	10,247	7,656	2,591	66,250
Income subject to tax	82,794	14,998	10,632	4,366	67,796
Income tax before credits	35,750	5,466	4,110	1,356	30,284
Investment tax credit	1,818	444	343	101	1,374
Foreign tax credit	1,537	--	--	--	1,537
Income tax liability	32,395	5,022	3,768	1,254	27,373
Dividends paid	25,934	2,869	1,794	1,075	23,065

Appendix Table 4.--Statistics of Income--Western Lumber Small Business  
Corporations, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber			Not dependent on public timber
		All	Compet- itive	Noncom- petitive	
Total Assets	60,668	33,171	17,857	15,314	27,497
Land	2,998	1,071	752	319	1,927
Depreciable assets	38,753	20,582	12,330	8,252	18,171
Accumulated amortiza- tion and depreciation	22,208	11,182	7,111	4,071	11,026
Net depreciable assets	16,546	9,401	5,220	4,181	7,145
Physical assets	42,340	20,918	13,766	7,152	21,422
Inventories	11,189	6,660	5,197	1,463	4,529
Net worth	35,515	21,778	9,953	11,825	13,737
Total income	18,876	9,616	5,873	3,743	9,260
Business receipts	75,506	36,967	26,742	10,225	38,539
Net long-term capital gains	3,701	2,797	1,919	878	904
Compensation of Officers	1,839	850	584	266	989
Interest paid	823	286	237	49	537
Depreciation	3,077	1,427	1,011	416	1,650
Depletion	6,165	3,768	2,225	1,543	2,397
Net income (or loss)	3,058	2,762	1,918	844	296
Dividends paid	1,800	1,446	1,350	96	354



Appendix Table 5.--Statistics of Income--Western Lumber  
Partnerships, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber			Not dependent on public timber
		All	Compet- itive	Noncom- petitive	
Total Assets	72,509	51,164	43,521	7,643	21,345
Land	2,557	1,597	1,132	465	960
Depreciable Assets	51,939	37,147	29,804	7,343	14,792
Accumulated amortiza- tion and depreciation	32,894	22,632	17,383	5,249	10,262
Net depreciable assets	19,045	14,515	12,421	2,094	4,530
Physical assets	46,410	34,189	29,326	4,863	12,221
Inventories	14,497	10,227	8,185	2,042	4,270
Partners' capital accounts (Net worth)	39,514	27,252	22,706	4,546	12,262
Business receipts	126,483	85,879	70,957	14,922	40,604
Net long-term capital gains	6,181	3,558	2,848	710	2,623
Payments to partners- salary and interest	1,511	1,186	892	294	325
Interest paid	1,229	873	694	179	356
Depreciation	4,183	2,993	2,514	479	1,190
Depletion	9,765	6,125	5,473	1,652	2,640
Net income (or loss)	1,693	2,152	2,491	-339	-459



Appendix Table 6.--Statistics of income--Western Lumber Sole  
Proprietorships, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber			Not dependent on public timber
		All	Competitive	Non- competitive	
Adjusted gross income...	2,313	1,242	924	318	1,071
Income tax before credit	407	241	140	101	166
Investment tax credit...	52	30	28	2	22
Income tax liability....	355	211	112	99	144
Business receipts.....	37,859	18,408	12,837	5,571	19,451
Net long-term gain.....	652	285	173	112	367
Interest paid.....	445	185	125	60	260
Depreciation.....	2,100	1,095	721	374	1,005
Depletion.....	649	--	--	--	649
Net income (or loss)...	1,262	653	661	-8	609
Foreign tax credit.....	--	--	--	--	--

Appendix Table 7.--Statistics of income--Eastern Lumber  
Corporations, 1962

(Thousand Dollars)

Item	All firms	Item	All firms
Total assets.....	182,979	Compensation of officers	2,429
Land.....	16,774	Interest paid.....	1,789
Depreciable assets.....	97,367	Depreciation.....	4,117
Accumulated amortization and depreciation.....	62,264	Depletion.....	4,561
Net depreciable assets....	35,103	Net income (or loss).....	10,053
Physical assets.....	114,234	Income subject to tax....	9,773
Inventories.....	31,326	Income tax before credits	3,311
Net worth.....	128,799	Investment tax credit....	244
Total income.....	45,256	Foreign tax credit.....	--
Business receipts.....	183,309	Income tax liability.....	3,068
Net long-term capital gains	7,846	Dividends paid.....	3,331

Appendix Table 8.--Statistics of Income--Western Plywood  
Corporations, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber	Not dependent on public timber
Total Assets	211,943	105,107	106,836
Land	5,414	1,885	3,529
Depreciable assets	123,956	72,299	51,657
Accumulated amortization and depreciation	67,415	42,614	24,801
Net depreciable assets	56,541	29,685	26,856
Physical assets	128,317	64,239	64,078
Inventories	46,479	23,516	22,963
Net worth	89,505	52,027	37,478
Total income	68,928	37,402	31,526
Business receipts	400,053	220,371	179,682
Net long-term capital gains	3,852	3,357	495
Compensation of officers	2,355	1,239	1,116
Interest paid	4,459	1,519	2,940
Depreciation	9,515	5,884	3,631
Depletion	17,292	13,672	3,620
Net income (or loss)	6,130	5,205	925
Income subject to tax	5,851	4,609	1,242
Income tax before credits	2,452	1,867	585
Investment tax credit	149	114	35
Foreign tax credit	100	100	--
Income tax liability	2,203	1,652	551
Dividends paid	252	44	208

Appendix Table 9.--Statistics of Income--Western Pulp and  
Paper Corporations, 1962

(Thousand Dollars)

Item	All firms	Dependent on public timber	Not dependent on public timber
Total Assets	1,524,263	457,802	1,066,461
Land	31,938	2,516	29,422
Depreciable assets	1,306,547	396,492	910,055
Accumulated amortization and depreciation	548,169	144,781	403,388
Net depreciable assets	758,378	251,711	506,667
Physical assets	1,025,119	308,275	716,844
Inventories	170,530	34,836	135,694
Net worth	937,209	156,117	781,092
Total income	601,579	108,696	492,883
Business receipts	1,158,684	208,613	950,071
Net long-term capital gains	41,418	12,123	29,295
Compensation of officers	3,407	665	2,742
Interest paid	18,600	11,608	6,992
Depreciation	81,022	20,223	60,799
Depletion	7,610	1,269	6,341
Net income (or loss)	141,267	26,249	115,018
Income subject to tax	142,340	30,164	112,176
Income tax before credit	62,760	12,392	50,368
Investment tax credit	2,203	663	1,540
Foreign tax credit	4,869	170	4,699
Income tax liability	55,689	11,559	44,130
Dividends paid	62,241	5,116	57,125



Appendix Table 10.--Statistics of Income--Western Diversified Timber Corporations, 1962

(Thousand Dollars)

Item	All firms	Dependent on Public Timber	Not Dependent on Public Timber
Total Assets	3,482,084	387,205	3,094,879
Land	146,843	29,561	117,282
Depreciable Assets	2,655,802	217,746	2,438,056
Accumulated amortization and depreciation	1,282,875	81,070	1,201,805
Net depreciable assets	1,372,926	136,675	1,236,251
Physical assets	2,374,121	260,749	2,113,372
Inventories	484,517	59,074	425,443
Net worth	2,540,843	185,918	2,354,925
Total income	1,112,294	106,855	1,005,439
Business receipts	3,029,510	336,194	2,693,316
Net long-term capital gains	144,191	13,102	131,089
Compensation of Officers	7,264	2,018	5,246
Interest paid	32,192	8,509	23,683
Depreciation	161,914	10,797	151,117
Depletion	162,568	31,584	130,984
Net income (or loss)	231,536	12,620	218,916
Income subject to tax	229,537	14,347	215,190
Income tax before credit	85,358	4,953	80,405
Investment tax credit	6,727	641	6,086
Foreign tax credit	4,729	--	4,729
Income tax liability	73,903	4,312	69,591
Dividends paid	129,636	3,658	125,978

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PUBLICATIONS ON FOREST DISEASE RESEARCH

1968

Southeastern Forest Experiment Station

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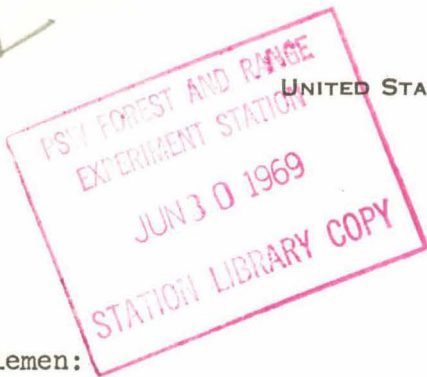
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<sup>1/</sup> Agricultural Research Service

<sup>2/</sup> University of Georgia

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June 2, 1969

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240 West Prospect Street, Fort Collins, Colorado 80521

Southeastern Forest Experiment Station  
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Southern Forest Experiment Station  
T-10210 Federal Building, 701 Loyola Avenue  
New Orleans, Louisiana 70113

Forest Products Laboratory  
U.S.D.A., Forest Service  
P. O. Box 5130, Madison, Wisconsin 53705.



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Chief of Forest Disease Research

Enclosure



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